United States Court of Appeals

for the Second Circuit

EXHIBITS

B

76-7207

United States Court of Appeals

For the Second Circuit

Docket No. 76-7207

PRUDENTIAL OIL CORPORATION,

Plaintiff-Appellee,

vs.

PHILLIPS PETROLEUM COMPANY,

Defendant-Appellant.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

(67 Civ. 3748 (C.L.B.))

EXHIBITS FOR JOINT APPENDIX

Volume VII — E1730 - E1888

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UNITED STATES COURT OF APPEALS
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SECOND CIRCUIT

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November 10, 1961

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30 ALGOI

ITS COMPANY

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PLAINES, ILLINOIS, U.S.A.

USA 338-475
(ED. 4-23-71)

DEFENDANT'S
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
D-21

B-21

INVOICE NUMBER	INVOICE DATE
10 411	11 10 61

OMEGA MANAGEN
230 PARK AVE
NEW YORK CITY

STUDY OF A PROPOSED
PETROCHEMICAL RAW M

IS INVOICE COVERS CHARGES FOR THE PRE-
EDING CALENDAR MONTH EXCEPT

1) - WAGES FOR FIELD PERSONNEL ARE BILLED ON A TWO-WEEK DELAY BASIS AND

2) - THE PROCESSING OF EXPENSE REPORTS MAY DELAY BILLING OF SOME TRAVEL AND LIVING EXPENSES

UOP PROJECT NO. 7725

FPI-MI—8-24-75-30M-4417

SPECIAL AGREEMENT DATED 91261 YOUR ORDER DATED

TYPE OF WORK	ITEM	*	HOURS	AMOUNT
	SECRETARY SERV	L	4	8
	MARKET RESEARC	L	165	621
	ENGINRNG ADMIN	L	4	8
	DRAFTING	L	29	114
	CHEM MKTNG DEP	L	3	6
	MARKET RESEARC	T		6
	COMMUNICATIONS			6
	GENL OUT SERVC			60
	B W PRINTS			33
	REPRODCTN SRVC			103
OVERHEAD	90 % OF		75819	682
FEE	100 % OF		144056	1440
	%			

DEC 23 1961

TERMS: NET PER AGREEMENT

PAY THIS AMOUNT $ 3091

ACCOUNTING COPY

* L—LABOR T—TRAVEL AND LIVING EXPENSES

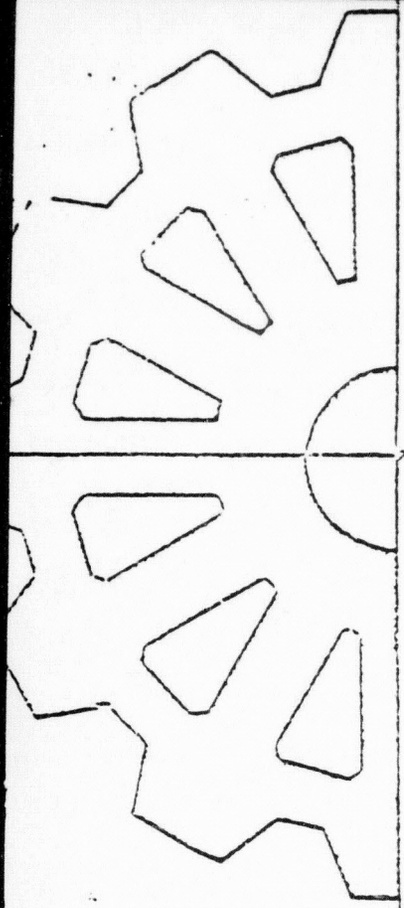
BEST COPY AVAILABLE

Form 22 Rev. 4-17-61 200

DATE		CHICAGO ILLINOIS NATIONAL BANK & TRUST CO. GENERAL ACCT.	HARRIS TRUST & SAVINGS BANK
1961	BROUGHT FORWARD		
Dec. 26			
27			

D-24 "The Chemical and Allied Products Industry in Puerto Rico"

Dx 101
E 1732 a



CHEMICAL AND ALLIED PRODUCTS INDUSTRY IN PUERTO RICO

economic development administration - san juan, puerto rico

E 1732 b

DECEMBER 1961

This publication is issued by the Economic Development Administration, Commonwealth of Puerto Rico, San Juan, Puerto Rico. Copies may be obtained free upon request.

E 1732c

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Alphabetical List of Chemicals Produced in Puerto Rico

Manufacturers of Chemical and Allied Products in Puerto Rico

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INTRODUCTION

There are now over 80 chemical firms operating in Puerto Rico with 9 planning to start operations soon. This industry, which employs over 2,000 workers, is beginning to play an increasingly important role in the Island's industrial development. New chemical firms from the States, among them, Union Carbide, Parke-Davis, W. R. Grace, Baxter Laboratories, Colgate-Palmolive, Johnson & Johnson, have recently been attracted to the Island to set up their own operations; others, such as Morton Chemical, W. P. Fuller & Co., and Reichhold Chemicals, have formed joint ventures with local businessmen.

Some of the chemical products produced in Puerto Rico now are glycols, sulfuric acid, pharmaceuticals, paints, dental cream, etc. Products to be produced shortly include polyethylene, chlorine, caustic soda, and phthalic anhydride.

Last year Puerto Rico exported $19.5 million of chemical products to the United States and foreign countries. During fiscal year 1961, shipments to the mainland alone amounted to a record of $26 million.

Although the Island is importing record amounts of chemicals ($67.5 million last year), the rate of increase of exports during the last five years has been 3 times faster.

The future growth of the Industry looks quite promising. Not only are giant chemical firms being attracted to the Island, but in many cases after a short while they expand or start new operations.

Their success is the Island's best advertisement for it attests to the soundness of the profit opportunities the Commonwealth offers chemical manufacturers.

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The following survey is designed to acquaint the reader with Puerto Rico's Chemical Industry, its potential development and the advantages the Commonwealth offers prospective manufacturers who select Puerto Rico as a plant location site.

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E 1736

THE CHEMICAL AND ALLIED PRODUCTS INDUSTRY IN PUERTO RICO

In 1950 there were 49 establishments in the chemical and allied products industry in Puerto Rico. These firms were small and locally owned, making pharmaceuticals, toilet preparations, solar salt and agricultural chemicals, primarily for the local market.

During the last decade, under the auspices of the Economic Development Administration, the industry has not only experienced tremendous growth but has developed to a point where it is playing an increasingly important role in the Island's industrial and agricultural development. The following table indicates some of the changes that have occurred in the industry during the last 10 years:

Chemical Industry in Puerto Rico
1950 and 1960

	1950	1960	Per Cent Increase
Number of establishments	49	73	49
Employees	1,268	1,921	52
Average hourly earnings	52¢	$1.19	129
Total Exports (millions)	$ 1.7	$19.5	1047
Total Imports (millions)	$24.0	$67.5	181

The Industry Today

The 1960 Census of Manufacturers, conducted by the Commonwealth Department of Labor, reported 73 establishments producing chemicals and allied products. During 1960, 6 new plants started operations, 4 have started operations so far this year, and 9 are pending establishment. Table I shows the composition of the industry by sectors with the employment and earnings in the 73 firms comprising the industry in October 1960.

Establishments, Employment, Hours, and Earnings in the Chemical and Allied Products Industry in Puerto Rico

October 1960

	Number of Establishments	Total Employment	Averages Production and Related Workers Employment	Weekly Hours	Hourly Earnings
All Manufacturing Industries	1,958	81,740	69,624	36.6	$ .941
Chemicals and Allied Products	73	1,921	1,297	34.8	1.144
Industrial organic and inorganic chemicals; plastic and synthetic materials	9	714	445	41.3	1.534
Drugs	24	477	311	37.7	1.007
Soap, detergents, and cleaning preparations, perfumes, cosmetics, and other toilet preparations, paints, varnishes, lacquers, enamels and allied products	17	220	124	36.9	.818
Agricultural Chemicals	11	374	294	23.1	1.133
Miscellaneous Chemicals Products	12	136	123	30.0	.673

Source: Commonwealth of Puerto Rico, Department of Labor, Bureau of Labor Statistics
Census of Manufacturing Industries in Puerto Rico - October 1960

Table I

E 1537

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Size and Location of Establishments

About 48% of the chemical plants established in Puerto Rico employ fewer than 10 employees; 37% employ from 10-49 and 15% employ 50 or more workers as seen below:

Employees	Number of Establishments
Fewer than 10	35
10-49	27
50 or more	11
Total	73

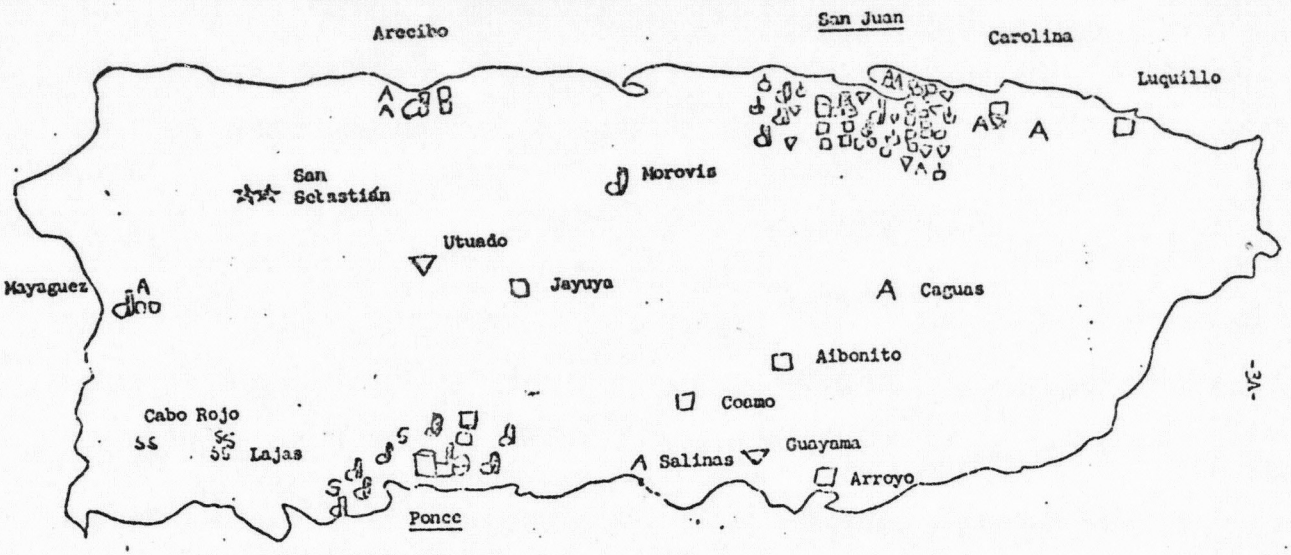
Source: Census of Manufacturing Industries of Puerto Rico, October 1960
Puerto Rico Bureau of Labor Statistics

Fifty-eight per cent of the firms in this industry are concentrated in the San Juan metropolitan area; 4 per cent are located in the Ponce area, with the remaining plants scattered throughout the Island. Both the San Juan and Ponce areas have a petroleum refinery with the latter developing a substantial petrochemical complex. The attached map shows the geographic distribution of chemical plants in Puerto Rico.

Products

Puerto Rico's chemical firms now produce such diverse products as glycols, sulfuric acid, drugs, pharmaceuticals, paints, herbicides, dental cream, etc., both for the local and world market. The attached list of firms in the chemical and allied products industry in Puerto Rico, describing products produced and mainland affiliate, provides the reader with a general picture of the industry's scope.

GEOGRAPHIC DISTRIBUTION OF CHEMICAL PLANTS IN PUERTO RICO



Oil Refineries

Petrochemical and Other Basic Chemicals

Pharmaceuticals

Soap and Toilet Preparations

Paints and Paint Products

A Agricultural Chemicals (Fertilizers, Insecticides, Herbicides Weed Killers)

Fireworks

S Salt Works

E 1739

E 1739

E 1740

New Firms

In contrast with 1950, today nearly a third of the firms in the industry are affiliated with mainland firms. Among them are such chemical giants as Union Carbide, Parke-Davis, Baxter Laboratories, W. R. Grace, Sterling Drugs, Morton Chemicals, Johnson & Johnson and Colgate Palmolive; some of them having more than one operation on the Island.

Shipments

One immediate effect of these new additions to the industry has been an increase in the shipments of chemical products from the Island to the mainland and foreign countries.

Exports, which in 1950 were $1.7 million, have steadily increased and during fiscal 1960 reached a record, $19.5 million. This represents a ten-fold increase over 1950 shipments and an increase of 217% over the previous year total.

All sectors of the industry showed substantial increases of shipments over the previous year. Drugs and basic chemicals comprised 58% of the total.

Of significance also, is the fact that Puerto Rican exports of chemical products to foreign countries during fiscal year 1960 were valued at $4 million, nearly a five-fold increase over 1959 exports. Ethylene glycol shipments accounted for $3 million of this total.

Attached Tables II and III provide a more detailed presentation of the dramatic increase of 1960 Puerto Rican chemical exports over the previous year figures.

Table II

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Shipments from Puerto Rico to the United States
of Chemical and Allied Products

Fiscal Years 1959 and 1960

Product	1959	1960
Medical and pharmaceutical preparations	$3,822,904	$ 4,673,490
Alcohols, including glycols	17,514	8,517,149
Industrial chemicals, n.e.c.	1,300	1,300
Soap and toilet preparations	164,034	198,473
Chemical and related products, n.e.c.	1,513,351	2,223,507
TOTAL	$5,519,103	$15,613,919

Table III

Exports of Chemicals and Related Products
From Puerto Rico to Foreign Countries

Fiscal Years 1959 and 1960

Product	1959	1960
Coal tar and other cyclic acids	--	$ 825
Medicinal and pharmaceutical preparations	$445,030	620,147
Chemical specialties	73,915	101,109
Industrial chemicals (exclusive of medical chemicals, U.S.P. and H.F.)	8,296	3,027,835
Pigments, paints, varnishes and related materials	3,369	107,498
Fertilizers and fertilizer materials	70,450	45,866
Explosives	1,000	700
Soap and toilet preparations	36,228	28,811
TOTAL	$638,288	$3,932,791

Source: External Trade Statistics, Fiscal Year 1960
Puerto Rico Planning Board

Over 85% of Puerto Rico's external chemical trade is with the United States. The following table shows trade statistics between these two areas. Note below that shipments to the United States have tripled in the last five years and have been rising at a much faster rate than imports:

Chemical and Allied Products Trade
United States and Puerto Rico

Calendar Years 1955-1960

	P. R. Shipments to U. S.	Index (1955=100)	U. S. Shipments to P. R.	Index (1955=100)
1960	$18,145,240	345	$59,207,514	145
1959	9,620,483	182	58,241,209	143
1958	6,701,420	127	51,638,304	126
1957	6,986,057	132	48,552,491	119
1956	5,842,797	111	45,149,254	110
1955	5,272,782	100	40,863,265	100

Source: Report F T 800
United States Trade with Puerto Rico
U. S. Department of Commerce

Local Consumption

Increased economic activity on the Island has generated a high rate of local consumption of chemical products. The local market for these products is estimated at over $90 million a year and increasing rapidly. During 1960, Puerto Rico imported from the United States and foreign countries a record $67.5 million of chemical products compared to 1959's imports of $59.6 million; an increase of some 13% (see Table IV).

Shipments of Chemicals and Related Products From The United States and Foreign Countries to Puerto Rico

Products	United States 1959	United States 1960	Foreign Countries 1959	Foreign Countries 1960
Coal-tar and other cyclic chemical products	$ 554,473	$ 731,596	$ 11,796	$ 3,819
Medicinal and pharmaceutical preparations	12,194,738	11,626,821	18,490	56,428
Chemical specialties	22,899,230	27,226,312	--	--
Industrial chemicals (exclussive of medicinal chemicals, U. S. P. and N. F.)	2,557,505	2,729,666	2,587,712	3,007,032
Pigments, paints, varnishes and related materials	6,792,213	7,708,372	8,928	17,649
Fertilizer and fertilizer materials	2,205,604	1,835,834	2,148,865	3,794,136
Explosives, blasting agents, fuses and blasting caps	80,428	170,170	127,086	111,477
Soaps and toilet preparations	7,015,022	8,131,833	364,249	383,798
Total for chemicals and related products	$54,299,213	$60,160,604	$5,267,126	$7,374,339

Source: External Trade Statistics, Fiscal Year 1960
Puerto Rico Planning Board
Bureau of Economics and Statistics

Table IV

E 1143

It should be noted that presently the output of the chemical industry in Puerto Rico is primarily for internal consumption; therefore, although the figures given in Tables II and III on value of shipments to the United States and foreign countries serve as an indicator of growth in the chemical industry, they are not as representative of total output as in the case in some other industries. In 1958, 81% of local production went towards meeting local demand, compared with 77% in 1954, as seen in the following table:

Value of Shipments and Markets for
Chemical and Allied Products
(In Millions)

	1954	Percent of Market	1958	Percent of Market
Value of Shipment	$25.9	100.0	$29.9	100.0
Market for Shipment				
Puerto Rico	20.0	77.2	24.3	81.2
United States	5.7	22.0	5.2	17.3
Foreign Countries	.2	.8	.5	1.5

Source: Census of Manufactures, 1958
U. S. Department of Commerce

That a great part of increased production is consumed locally is of great significance to Puerto Rico for it indicates:

-- a maturing economy. Increased chemical consumption and production are recognized indices of a developing industrial economy.

-- the need for importing certain products will diminish. A classic example is offered by the effect the establishment of the Island's oil refineries had on many imports.

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-- a whole range of products may be forthcoming which will not only furnish raw materials and intermediates to existing local industry and consumers, but can also serve as a base for the establishment of additional industries in Puerto Rico.

-- chemical production and consumption have grown and will continue to grow in order to satisfy the increasing needs of the industrial and agricultural sectors of the economy.

Research and Development

The Puerto Rican chemical industry, just as in the mainland, is expected to grow with its research accomplishments. In Puerto Rico's particular case it means the greater development and utilization of:

1. raw materials available from local sources (sugar, molasses, bagasse, salt, silica sand, limestone, etc.)
2. locally produced chemicals, or
3. crude oil and its yields (petroleum refining-petrochemicals).

The Economic Development Administration, through its Department of Industrial Research, conducts studies and experiments for the purpose of developing and improving local materials that may be utilized by local chemical manufacturers..for example, studies are being made on the possibility of using bagasse, a sugar waste, to make furfural and ultimately nylon. In addition to sugar, other available local raw materials that offer possibilities of development are salt, silica sand and limestone. See attached chart for a picture of some of the products that can be derived from these materials.

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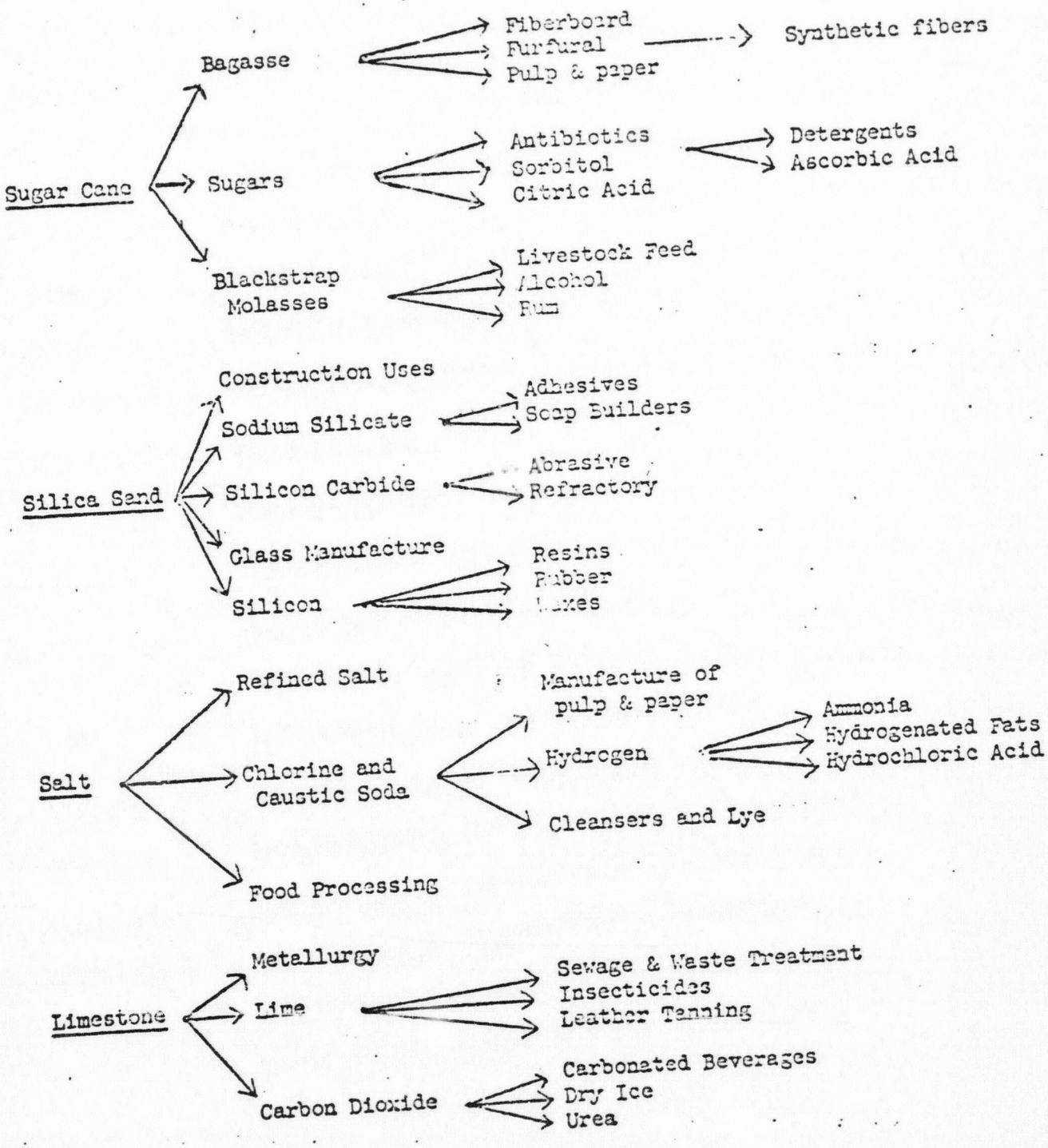
POTENTIAL DEVELOPMENT AND USES OF SELECTED LOCAL RAW MATERIALS



Integration

Attached is a list of chemicals produced in Puerto Rico, many of which can serve as raw materials for other industries. Of particular interest are several projects which will be established shortly on the Island. They are: Union Carbide's $30 million polyethylene plant, a $2 million chlorine and caustic soda plant sponsored by local interest and the Morton Chemical Company, a $5 million expansion by Commonwealth Oil Refinery for the production of petro-naphthalene and benzene, and a $4 million phthalic anhydride plant proposed by Stepan Chemical Company.

When the above plants go on stream they will provide the basis for the manufacture of countless items not presently produced on the Island. For example, phthalic anhydride alone is a key chemical in the production of flexible plastic films, polyester resins, alkyd paints, surface coatings and dyestuffs.

By-products from Union Carbide's cracking naphtha operation that will ultimately produce polyethylene will include other unsaturated light hydro-carbons, such as propylene, butylene and butadiene, as well as heavier unsaturated aliphatics and aromatics. These by-products offer opportunity for further upgrading to commercial petrochemicals.

Petrochemical Development

Another area of promising significance to the chemical industry and the Puerto Rican economy in general is the use of crude oil as a raw material. In many cases, because of its proximity to oil rich Venezuela - 550 miles away -, and subsequent attractive transportation costs, it is also economically feasible to import nahptha and other petroleum derivatives. The fact that Puerto Rico already has two petroleum refineries lays the basis for an expanding petrochemical industry.

There are several reasons why great importance is attached to the need for an expanding petrochemical industry.

1. A local petrochemical industry could substantially compensate for the Island's lack of indigenous raw materials.
2. The industry affords permanent employment at relatively high wages.
3. The industry offers predominately male employment; an offset to the fact that new employment opportunities generated by our development program to date have been largely female jobs (60%).
4. Because of the magnitude of petrochemicals projects, these generate a substantial volume of construction employment and income.

Presently the Island's refineries are using the basic raw material, crude oil, to produce the familiar products: gasoline, kerosene, fuel oil, butane, propane gas and diesel oil. In addition, they yield or are capable of yielding other gases and liquid fractions such as hydrogen, methane, ethane, propane, ethylene, propylene, butylenes, butanes, and benzene.

Given the current and likely future state of technology, engineers and other experts anticipate that these various end-products, many of which will be suitable for manufacture in Puerto Rico. Methane, for example, can be converted into hydrogen, and this in successive stages into nitric acid, ammonium nitrate, urea, and ultimately fertilizer and other products. Methane also yields methanol which, via formaldehyde, yields plastics. Ethylene can be converted into any number of products and ultimately into plastics, synthetic rubber, synthetic fibers, detergents and explosives. The naphthenes yield an interesting group of products of which the most promising for the Island are nylon, synthetic rubber, plastics, paints, insecticides and synthetic fibers.

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While there is a tremendous number of possibilities from the utilization of crude oil, refinery gases and liquid fractions, some of the above end-products if produced in Puerto Rico offer a high degree of comparative advantage. Puerto Rico's main economic resource is an ample labor force of high productivity which when coupled with existing reasonable wage rates results in low labor cost per efficiency unit of labor. It is clear that those products which require the greatest amount of labor are likely to show greatest advantage for a Puerto Rican location. Synthetic fibers whose labor requirements are relatively high is a good example of a potentially profitable operation for the Island. This observation was confirmed by a study of location factors in synthetic fiber production conducted at M. I. T. which selected Puerto Rico as a prime location site for a synthetic fiber plant.*

Urea is a specialty fertilizer for high value crop, and can be used as an industrial raw material and also for cattle feed; all of which can find ready markets in Puerto Rico. For example, industrial grade urea goes into the manufacture of formaldehyde resins and plastics used in making high grade plywood for the furniture and construction industries (two of the Island's biggest). Urea resins also go into the manufacture of plastic kitchenware and find various applications as well in the textile, paper and pharmaceutical industries.

These are only a few of many possible considerations. Generally speaking, other operations which gain exceptionally from Puerto Rico's advantages of low labor costs, high productivity and tax incentives are high profit and high value-added products.

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* Joseph Airov - "The Location of the Synthetic Fiber Industry"
Massachusetts Institute of Technology - 1959

E 1750

Production for Export

Another basis for the expected growth of the Commonwealth's chemical industry is the fact that Puerto Rico has developed as a site for chemical production for export markets. In the last few years, more and more U. S. chemical manufacturers have selected Puerto Rico as a base for operation to serve primarily the U. S. market. Exports to the U. S. and foreign countries which have been growing quite rapidly will be boosted substantially when Union Carbide's, Stepan's, Colgate Palmolive's and Johnson & Johnson's plants begin operations. All of the foregoing firms have acknowledged their intent to serve outside markets from Puerto Rico. In view of the many new advantages Puerto Rico offers chemical manufactuers, it is expected that other giant chemical U. S. firms will emulate the above firms' actions.

The Puerto Rican chemical industry as will be observed further on in this study is not a single entity but rather a heterogeneous one, which thrives on change. This is evidenced by the developments in the industry that followed the establishment of the Island's two oil refineries. It is expected, therefore, that the development of new products whether they originate from greater utilization of local raw materials, locally produced chemicals or crude oil will profoundly affect the profile of the industry. At the same time, by generating its own growth, it will aid the economics of other industries as well as Puerto Rico's over all economic development.

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INDUSTRY BY SECTORS

Drugs and Pharmaceutical Preparations

The Island's 28 drug and pharmaceutical manufacturers comprise about a third of the firms in the chemical industry. During recent years many outstanding names in the drug industry have established plants in Puerto Rico. Among them are: Sterling Drugs Inc., Baxter Laboratories and Parke Davis & Co. The latter two, established in 1958 and 1960 respectively, have since expanded their operations. In addition five other drug plants will start operations soon. See attached list of manufacturers of drugs and medicines in Puerto Rico.

Products

The Island's drug firms produce such products as intramuscular iron complex, intravenous solutions, hormones, vitamins, cough syrup, antibiotics, synthetic plasma, pharmaceutical active ingredients, etc.

Location

Plants producing drugs and medicines are located in ten of the Island's 76 towns. The industry, however, is concentrated in the San Juan metropolitan area, which accounts for over two-thirds of Puerto Rico's pharmaceutical preparation plants.

Labor

Local drug manufacturers employ approximately 500 workers, of which 40% are women. Average hourly earnings are $1.01, average weekly hours are 37.7 and average weekly earnings are $37.96.

The present applicable hourly minimum wage rates are as follows:*

Hormones, antibiotics and adrenalin	$1.00
Drugs, medicines, bay oil, aromatic alcohol	.77

A survey of fringe benefits in 15 plants included in this classification revealed that paid vacations of 2 weeks were granted by 8 plants, 3 weeks by one, 15 days by one, and from 1-3, depending upon length of service, for another firm; paid sick leave of 2 weeks by one firm; interest free loans with limits ranging from $50 to $100 are made by four firms; and annual bonuses are paid by four plants.

Shipments

During 1960, exports of pharmaceutical products produced in Puerto Rico were valued at $5.3 million or 27% of total chemical and allied products shipments. Exports to the United States for the first 7 months of fiscal year 1961 are valued at $4.4 million and represent an increase of 56% over the corresponding period of the previous year.

The following table shows comparative import and export drug data for the last 2 years:

	Puerto Rico Imports		Puerto Rico Exports	
	1959	1960	1959	1960
United States	$12,194,738	$11,626,821	$3,822,904	$4,673,490
Foreign Countries	18,490	56,428	445,030	620,147
TOTAL	$12,213,228	$11,683,249	$4,267,934	$5,293,637

Total imports to Puerto Rico of drugs and medicinal compounds from the United States and foreign countries have been decreasing steadily; in 1958 imports totaled $14.4 million, during 1959 $12.2 million and in 1960 they

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* Subject to 15% increase-November 3, 1961.

amounted to $11.7 million. This indicates that local drug manufacturers are not only increasing exports but are slowly beginning to capture more of the import market.

A bright future is envisioned for the Island's pharmaceutical firms producing not only for the export but also for the local market. This optimistic view is based mainly on the fact that rising consumer incomes plus an increasingly larger proportion of very young and older people, which in both cases require an above-average amount of medical care, will augment the local demand for drugs.

Successful Operations

The experiences of the following two U. S. pharmaceutical firms with their operations in Puerto Rico attests to the opportunities the Island offers the industry.

Parke-Davis first appeared on the Island in 1960 with a pilot operation employing 30 persons. It occupied a 45,000 sq. ft. plant in Carolina producing kapseals. Initial investment in machinery and equipment totaled $450,000. Early this year Parke-Davis expanded its plant 40,000 sq. ft. and invested an additional $982,000 to produce steri-vial and ampoules. This expansion will increase employment to 135 workers.

Baxter Laboratories started operations on the Island in 1958. It employed 70 persons producing pharmaceuticals in a 13,000 sq. ft. plant in Hato Rey. Investment in equipment and machinery totaled $100,000. The following year Baxter expanded its plant space by 13,000 sq. ft. and employed an additional 20 workers. Recently, Baxter announced it will open a new plant in Jayuya producing expendable administration sets (intravenous solutions) employing 45 workers.

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One of Puerto Rico's largest drug plants, the Western Fher Laboratories, was inaugurated in Ponce recently. This firm, which operates under license from Foeringer Sohn of Germany, is the first Puerto Rican chemical plant affiliated with foreign interests. This move will probably be followed by other European firms also interested in producing for the United States and Latin American markets.

Advantages

The rapid growth and development of Puerto Rico's pharmaceuticals industry stem from the many advantages the Commonwealth offers the industry. For example:

1. Drug firms are able to recruit personnel from a vast labor pool with an average wage rate below that of mainland drug manufacturers.
2. Also available are competent pharmacists and chemical technicians, graduates from the Island's universities.
3. Since pharmaceuticals made in Puerto Rico for the local market, for the U. S. or exclusively for export must comply with U. S. Food and Drug Administration regulations, they enjoy the quality reputation associated with products ruled by these regulations. They also bear the "Made in U. S. A." marking.
4. Puerto Rico is part of the U. S. customs area so that shipments to the mainland are not subject to any duties.
5. Puerto Rico's tax exemption program is particularly beneficial to pharmaceutical companies where substantial sums spent on research and production to gain a unique position must be amortized quickly because of the high obsolescence rate of products in the industry.

Petroleum Refining, Petrochemicals and Other Basic Chemicals Refining

Puerto Rico has two oil refineries. The Commonwealth Oil Refining Company at Guayanilla Bay employs 823 workers and has a daily throughput capacity of 75,000 barrels of crude oil. The Caribbean Refining Company in Cataño has a daily capacity of 14,600 barrels. Both refineries began to process crude oil in 1955.

Presently, the refineries principal products are: fuel oil, kerosene, butane, propane gas, regular high octane gasoline, aviation gasoline, LPG and diesel oil. Both refineries sell substantial amounts of fuel to the Water Resources Authority, which provides the Island's electric service, and LPG to local distributors. The Commonwealth Oil Refining Co. (CORCO) also supplies by-products to Union Carbide. CORCO has already announced plans to enter the petrochemical field in the near future.

The attached chart shows the present capacities and types of processes used in Puerto Rico's oil refineries.

Petrochemicals and Other Basic Chemicals

The petrochemical industry in Puerto Rico is the most rapidly developing segment of the Puerto Rican chemical industry and also the most promising.

Manufacturers of petrochemicals and other basic chemicals account for just 12% of the number of establishments in the industry, yet employs over 700 workers or more than 37% of the industry's employment. Most of these plants are located in the Ponce area close to the Commonwealth Oil Refinery, which supplies them with some raw materials. A substantial petrochemical complex is beginning to take form in this vicinity. See attached chart for a description of the plants in this area with their products. Stepan's phthalic anhydride plant and Morton's chlorine and caustic soda plant will also be built in this area.

PUERTO RICAN OIL REFINERIES, THEIR CAPACITIES, AND TYPES OF PROCESSING*

	Crude Capacity BPCD	Crude Capacity BPSD	Charge-Barrels Per Stream Day: Vacuum Distillation	Thermal Operations	Catalytic Cracking Fresh Feed	Catalytic Cracking Recycle	Catalytic Reforming	Hydrogen Treating Unit	Hydrogen Treating Feed
Caribbean Refining Co. San Juan	14,600	15,200	10,000	---	8,500 2/	2,400	---		
Commonwealth Oil Refining Co., Inc. Guayanilla Bay	75,000	82,000	68,996	20,000 1/	26,600 3/	26,800	7,454 4/	7,500 5/ 7,454 5/	Mid-dist SR Naph (
TOTAL	89,600	97,200	78,996	20,000	35,000	29,200	7,454	14,954	

	Production-Barrels Per Stream Day: Alkylation	Polymerization	Lubes	Coke (Tons)	Asphalt
Caribbean Refining Co. San Juan	---	1,300 8/	---	---	---
Commonwealth Oil Refining Co., Inc. Guayanilla Bay	1,425 7/	1,605 8/	---	---	---
TOTAL	1,425	2,905			

LEGEND:

Thermal Process: 1/ Visbreaking
Catalytic Cracking: 2/ Fluid
3/ Houdriflow
Catalytic Reforming: 4/ Houdriforming
Catalytic Hydrogen Treating: 5/ Unifining
6/ Houndry
Alkylation: 7/ Sulfuric acid
Polymerization: 8/ Catalytic

Feed:

(1) Midstream distillation
(2) Straight run naphtha

* As of January 1, 1961.

Source: Oil and Gas Journal - April 3, 1961

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THE GROWING PONCE PETRO-CHEMICAL CENTER

Ponce Chemicals Inc.
(Morton Chemicals)

Products: Chlorine, caustic soda, hydrogen

Union Carbide Caribe #2
(Union Carbide)

Product: High pressure polyethylene

Commonwealth Oil Refining Company

Products: Oil refining: gasoline, kerosene, diesel oil, fuel oil, LPG. Supplies Union Carbide with raw materials, and the P. R. W. R. A. with pitch.

Union Carbide Caribe #1
(Union Carbide)

Products: Glycols: monoethylene, diethylene, triethylene

Caribe Nitrogen Corp.
(W. R. Grace)

Products: Sulfuric acid, ammonium sulfate, and anhydrous ammonia

Stepan Chemicals
(Stepan Chemicals)

Product: Phthalic anhydride

Puerto Rico Water Resources Authority

Furnishes above chemical firms with electric energy needs.

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Some key chemicals now, or soon to be, produced in Puerto Rico are: glycols, sulfuric acid, ammonia, chlorine, caustic soda, polyethylene and phthalic anhydride.

This is an increasingly important sector of the industry not only because of its capital-intensive nature (W. R. Grace's and Union Carbide's plants alone represent investments in excess of $50 million), but especially because of the new vistas that these products will open for Puerto Rico's industrial evolution.

The W. R. Grace $14 million Caribe Nitrogen plant in Guánica, with 200 workers, is the only ammonia, ammonium sulfate plant in Puerto Rico. It was built to make the Island more self-sufficient as a basic chemical producer for industry and agriculture. Its design capacity is 125 tons of ammonia and 350 tons of sulfuric acid daily, which can be combined to make over 400 tons daily of ammonium sulfate.

Union Carbide's $30 million plant in Peñuelas, with 340 workers, produces ethylene, diethylene and triethylene glycol primarily for export. In mid-1960 Union Carbide announced plans for the construction of a huge $30 million polyethylene plant to be built adjacent to its existing operation. This would make Union Carbide the largest single industrial investor on the Island. The plant's initial annual production capacity of 110 million pounds of high pressure polyethylene is said to be the largest initial production capacity of any single polyethylene plant in the world. Production will be geared to serve world markets. There is no question that local plastics fabricators will be able to benefit from this low-cost local supply of raw material especially when coupled with an abundant supply of both male and female labor at reasonable wages.

Puerto Rico's new caustic soda and chlorine plant, a joint venture with Puerto Rican and mainlanders sharing in opportunities, will open the way for the

manufacture of essential base materials for other industries. Chlorine for example, will find use in the production of other chemicals such as bleaches, antifreezes, solvents, insecticides, plastics, and refreigerants. Caustic soda will be used in chemical processing, in the manufacture of pulp and paper, textile processing and in soaps and cleaners.

Stepan Chemical has recently announced its plans to establish a $7 million phthalic anhydride plant in Puerto Rico. This will also open the way for many new manufacturing operations for the Island since phthalic anhydride is used in the manufacture of polyester resins, alkyd paints, surface coatings and dyestuffs.

Industrial chemicals exports totaled $11.5 million during fiscal year 1960 while total imports were valued at $32.9 million. Glycols account for almost all of the Island's exports of basic chemicals; $2.9 million of these shipments went to foreign countries.

Production of other products included in this classification such as organic and inorganic acids, industrial alchohol and compressed and liquified gases, which has also expanded tremendously during the last few years, is consumed almost entirely locally to meet the growing Puerto Rican demand for these products.

Soap and Toilet Preparations

This sector of the industry is also going through a period of marked change. Of the 13 firms included in this classification, 4 were established during the last 2 years and one is pending establishment.

For years, firms included in this classification produced bay rum, toilet waters, hair preparations, perfumes, and the like for the local market. However, during the last couple of years, many new plants affiliated with mainland firms have established on the Island producing washing soap, sanitary chemicals,

manufacture of essential base materials for other industries. Chlorine for example, will find use in the production of other chemicals such as bleaches, antifreezes, solvents, insecticides, plastics, and refreigerants. Caustic soda will be used in chemical processing, in the manufacture of pulp and paper, textile processing and in soaps and cleaners.

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detergents, dental cream and baby powder. These manufacturers are beginning to capture more of the local market for these products and are now even exporting increasing amounts; $200,262 in 1959; $227,284 in 1960.

Earlier this year, Johnson & Johnson's plant to produce baby powder opened; soon Colgate-Palmolive will open its dental cream plant. The addition of these firms to the industry will not only mean increased diversity of products produced on the Island but also that export shipments should rise considerably in the near future.

Soap and toilet preparation imports last year were valued at $8.5 million, a 20.8% increase over 1959 shipments. Sales of these items in Puerto Rico should continue to expand since they are closely tied to personal income increases. Therefore, the Puerto Rican market proper offers opportunities because of its growth potential.

This industry is characterized by a high value added ratio because it requires a large labor force to package the materials and ready them for sale to the consumer market. The availability of semi-skilled labor at lower costs that on the Mainland are prime reasons why Puerto Rico should be considered as a plant location site for the manufacture of products included in this classification.

Miscellaneous Chemicals

Among the products produced in Puerto Rico included in this category are fertilizers, fungicides, paints and varnishes, insecticides, salt and fireworks. The 26 firms producing these products employ over 500 workers.

Fertilizers

Owing to soil conditions and the fact that Puerto Rico's agricultural economy is oriented toward crops that yield a high value per acre, the Island

consumes large quantities of commercial fertilizer for the production of sugar cane, tobacco, pineapples, coffee and vegetables. To supply this market several fertilizer mixing plants have been established in Puerto Rico (see attached list of fertilizer mixing plants in Puerto Rico). During 1960 these plants produced 208,300 short tons of mixed fertilizer, almost all of which went for local consumption. Puerto Rico imported $5.6 million worth of fertilizer mix during the same period.

Paints and Related Products

There are six firms in Puerto Rico producing paints and related products with two new high quality plants pending establishment. Three plants are affiliated to mainland concerns and three are locally owned (see attached list).

It is expected that once paint solvents and soybean oil are locally produced, additional impetus would be given to a considerable expansion in paint manufacture since two of the three major components of paint would then be locally available. Local paint manufactuers, who are now only supplying about 20% of the local market, will not only then be able to capture some of the market for externally produced paints and lacquers, imports of which last year were valued in nearly $8 million, but will also begin to seek new export markets.

Other Chemical Products

There are 7 firms in Puerto Rico producing herbicides, insecticides and weed killers mainly for the local market. These products are finding increasing use in Puerto Rico in tune with the Island's agricultural development. Last year imports of these products were valued in excess of $2.2 million.

Included in this classification are two small firms in San Sebastián producing fireworks for local festive occasions.

It is estimated that due to climatological conditions, local production of raw salt has been averaging 10,000 tons annually for the last 3 years, with solar salt production capacity of 30,000 tons annually. There are six firms producing raw or industrial salt, one of which, Ponce Salt Industries, produces both industrial and refined salt. This firm produces some 1.4 million pounds of refined salt monthly under such labels as Morton, Ivory, White Crystal.

While the above products included in the miscellaneous chemical classification are primarily for local consumption, exports to the United States and foreign countries last year reached a record, $2.5 million, compared to $1.7 million during 1959. During 1961, shipments to the United States were 32% greater than in 1960.

LOCATIONAL FACTORS

The Commonwealth in its efforts to assume the continued success of the chemical and allied products industry, so vital to Puerto Rico's industrialization program, is doing all within its power to attract qualified chemical manufacturers to the Island.

Following are some of the major reasons chemical manufacturers are selecting Puerto Rico as a plant location site, and some of the services offered by the Commonwealth to these firms.

Labor Availability

A substantial pool of trained labor is available to new chemical products manufacturers throughout the Island. The total labor force during fiscal 1961 averaged 641,750 workers, of whom 70,000 or 11 percent were unemployed and available for employment.

The Puerto Rican Employment Service will test and screen applicants for positions in the chemical and related industries. On-the-job training programs are also offered with EDA paying for instructors. Furthermore, EDA's Department of Industrial Services will assist new firms in sending supervisors and managerial trainees to plants on the mainland or in bringing technicians to the island for training managers and supervisors.

Competent pharmacists, engineers and chemical technicians, graduates from the Island's universities are readily available on the Island. Graduates for the last three years were as follows:

	1958	1959	1960
Chemical engineers	6	6	7
Bachelor in chemistry	n.a.	n.a.	42
Pharmacists	36	22	36

Reasonable Wage Rates

The minimum wages for the various divisions in the chemical industry as set by the Wage and Hour Division of the U. S. Department of Labor are as follows:

Classification	Rate	Effective Date
Agricultural Chemicals	1.15 F	November 3, 1961
Fertilizer Mixing	1.15 F	November 3, 1961
Industrial Inorganic Chemicals	1.05 1/2 F	December 5, 1961
Miscellaneous Chemical Products	1.09 F	December 5, 1961
Hormones, Antibiotics and Adrenalin	1.15 F	November 3, 1961
Drugs, Medicines, Bay Oil, Aromatic Alchol and Toilet Preparations	.88 1/2 F	December 5, 1961
Petroleum Refining	1.15 F	November 3, 1961
Pipeline Coating Tapes	1.15 F	November 3, 1961
Miscellaneous Petroleum Products	1.09 F	December 5, 1961

Because of the labor surplus, average wages in each division tend to remain close to the minimum.

The overall average hourly earnings in the chemical and allied products industry in Puerto Rico during 1960 was $1.14 compared to the mainland average of $2.53. The following table illustrates the comparative situation in this industry.

Hours and Earnings - Chemical & Allied Industry
United States and Puerto Rico
1960-1961

PUERTO RICO			UNITED STATES	
1960	1961		1960	1961
$ 1.14	$ 1.25	Average Hourly Earnings	$ 2.53	$ 2.58
34.8	37.6	Average Weekly hour per worker	41.2	41.3
$39.67	47.08	Average Weekly earnings	$104.24	106.55

Source: U. S. Department of Commerce - Survey of Current Business June 1961
Commonwealth of Puerto Rico - Department of Labor June 1961

The table below shows comparative average hourly earnings by sector of this industry in Puerto Rico and the United States as of October 1960:

	United States	Puerto Rico
Chemicals and Allied Products	$2.53	$1.14
Industrial organic chemicals	2.70	1.53
Industrial inorganic chemicals	2.53	
Drugs and Medicines	2.34	1.01
Soap, cleaning and polishing preparations	2.73	0.82
Paints, pigments, varnishes, lackers, and enamels	2.49	
Fertilizers	1.90	1.13
Vegetable and animal oils and fats	1.95	
Miscellaneous Chemical Products	2.73	0.67

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Puerto Rico lends itself ideally to the production of high labor input products because of the abundance of skilled and semi-skilled labor at reasonable wage rates.

Transportation and Freight Rates

There is frequent, scheduled steamship and trailership service between Puerto Rico and the United States. Average transit time between New York and San Juan is 3 1/2 - 5 days. There is also regular, low-cost steamship service between Europe, Latin American and Asia. Sample rates for Puerto Rico to Atlantic Gulf Coast port shipments of chemical and allied products are as follows:

	Per Cu. Ft.	Per C.W.T.
Alcohol (butyl, denatured ethyl)	$0.33	--
Polyethylene products	0.43	$1.09
Bay rum	0.36	--
Chemicals, N.O.S.	0.77	1.92
Drugs N.O.S.	0.77	1.92
To Pacific Coast Ports:		
Chemicals, Drugs and Pharmaceuticals	0.95	2.28

If planned movements are to be substantial, lower rates can generally be obtained for commodities without specific rates at present.

There are five regular airlines giving cargo service between the Island and the Mainland; with New York only 3 1/2 hours away by jet. Hormones, antibiotics and adrenalin comprise the largest portion in terms of value of chemical shipments moving from Puerto Rico to the Mainland by air.

Below are representive air freight rates.

General Commodity Air Freight Rates from San Juan	Rate Per Pound Under 100	100 and over	3,300 and over
Miami	$0.15	$0.12	$0.10
Philadelphia	0.20	0.16	0.14
New York	0.20	0.16	0.14
Chicago	0.32	0.25	0.23

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Water

The Aqueduct and Sewer Authority supplies water to the Island's industrial users. While the capacity of some of the aqueducts is large enough for industrial use, process water is largely obtained from rivers and wells.

The approximate average flow of Puerto Rico's major rivers is shown below:

River	Minimum Flow MM Gal/Day
Cibuco	25.8
Culebrinas	9.7 - 12.9
Blanco	9.7
Guanajibo	9.7
Loíza	75.0
Manatí	64.6
Arecibo	64.6
Añasco	64.6
Plata	38.8

Several large chemical operations in Puerto Rico use salt water for cooling, and most of the fresh water used for cooling is recirculated. Air cooling is practical in the southern coastal regions.

There is a wide variation in the degree of hardness of the Island's water depending on location. Underground water resources are ample in many areas and are well charted. Some large industrial users found it more economical to sink their own wells.

For large industrial users, water rates decline with quantity to a minimum rate of about 3.5¢ per cubic metter (10¢ per 100 cu.ft.).

Rates for sewer service are generally one-third of the water charge, and assistance is provided in the disposal of large volumes of industrial waste.

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Electricity and Fuel

Electric power in Puerto Rico is currently 88 per cent steam generated. Output was 2,206 million kilowatt-hours in 1960 with dependable capacity of 598,920 KW. The entire Island is connected by a well-developed high tension grid. The system provides dependable single and three phase 60 cycle alternating current at standard voltages. Rates are comparable to those in mainland areas which depend primarily on steam generating plants, such as New England and the Middle Atlantic States. The average cost per KWH for industrial use is 1.53 cents with some large industrial users paying as little as 1 cent.

Most manufacturers in Puerto Rico use oil for industrial process heating. The Island's two refineries provide fuel oils and a local source for petroleum products, including commercial LPG.

Raw Materials and other supplies and services

Aside from the locally produced chemicals (see attached list), other materials available locally are: solar salt, limestone, silica sand, clay, pure limestone, dolomitic limestone, sugar molasses, bagasse, gasoline, kerosene, fuel oil, refinery gases, liquified gases, bottles, jars, cans, corrugated shipping containers, folding and set-up boxes, boxes for pharmaceutical products, etc.

Local agents of major U. S. chemical suppliers maintain warehousing facilities to supply chemicals locally, many at mainland prices. There are trucking firms with tank cars for the movement of liquids and barges for transporting bulk shipments between ports in the Island.

Government Services to Chemical Manufactuers

One of the most important services offered by EDA to chemical companies is assistance in locating and acquiring a suitable plant site. The Puerto Rico

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Industrial Development Company (PRIDCO) constructs for lease or sale multi-purpose building at rental rates ranging from 50¢ to 95¢ per square foot annually depending upon location and requirements. In certain cases PRIDCO constructs special buildings to meet individual requirements of a manufacturer.

Manufacturers who use local raw materials, can benefit from studies and experiments conducted by the Department of Industrial Research which develops new and improved methods of utilizing local materials, such as bagasse, molasses, etc.

U. S. Geological Survey maps cover all of Puerto Rico and the periodic census data on population, labor force, and markets in each municipality are supplemented by special surveys to aid in site selection.

In addition, the Department of Industrial Services provides assistance in plant lay-out; and the Government Development Bank for Puerto Rico makes available to chemical manufacturers, loans on land, buildings, machinery, and equipment.

Attractive Tax Incentives

Chemical manufactuers who decide to establish in Puerto Rico literally enjoy a "tax holiday" since federal tax laws do not apply in Puerto Rico and Commonwealth taxes may be waived for a period of up to ten years.

The Puerto Rico tax exemption law is of particular interest to the chemical industry where product obsolescence is fairly high and payout time is short, since it enables a manufacturer to reinvest earnings for plant expansion or product diversification at a rate roughtly twice that of the U. S. mainland where corporate taxes would have to be paid. Additional ten year grants are available for new plants and expansions under certain conditions.

The tax-exemption feature can be especially attractive to chemical companies which are introducing a new product likely to achieve high profitability. When a unique useful product has been developed and patent protection, raw material advantage, or company-restricted know-how promise to give it a period of superiority over competitive products, a company can take advantage of the tax exemption offered in Puerto Rico to retain the high earnings achieved during the early life of the product.

At the termination of the tax-exemption period, the manufacturer becomes taxable under the Puerto Rican tax laws on the same basis as nonexempt cases, but the maximum corporate tax rate is 38% and undepreciated assets may be depreciated with complete flexibility. A variety of attractive possibilities thus exist for the reinvestment in Puerto Rico of accumulated tax-exempt profits.

Good Geographic Position

U. S. manufacturers are increasingly finding that Puerto Rico is an ideal plant site because of its geographic location in relation to the growing Latin American market. Puerto Rico's geographic position permits local manufacturers to utilize crude chemicals or materials from Latin America for processing and shipment of the finished product to the States for sale, or vice versa. Also, not only is Venezuela only 550 miles away, but Puerto Rico is as close to Europe as the U. S. Eastern Seaboard is, and, of course, has a transportation advantage over the U. S. Gulf ports to Europe and South America.

For chemical companies wishing to distribute products to a number of foreign markets as well as the United States, it may be worthwhile to consider a location in the Foreign Trade Zone at Mayaguez in western Puerto Rico. Here, raw materials can be imported duty-free and processed or manufactured within

the Zone. Final products can then be shipped abroad without payment of duty. Manufacturers bringing products into the United States, Mainland or Puerto Rico from the Zone pay duty on the dutiable raw materials which went into the products. This feature is especially attractive to chemical companies who may wish to import organic intermediates (which have high U. S. duties) from foreign countries for processing for the U. S. and Latin American markets.

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SUMMARY

This report has attempted to provide the reader with a general picture of the chemical industry in Puerto Rico, its potential development, and the advantages the Commonwealth offers prospective chemical manufacturers who select Puerto Rico as a plant location site.

Described below are some of the salient characteristics of those products which, backed by past experience and economic considerations, have proven to be the most promising for successful manufacture on the Island.

We have also briefly noted some of the Island's main attractions to chemical manufacturers.

Classification	Economic Consideration
1. High profit items	Exemption from both federal and Commonwealth taxes permits chemical companies which are introducing a new product likely to achieve high profitability, to retain the high earnings achieved during the early life of the product.
2. High value-added products	Products which gain substantial value because of high labor input, whether from manufacturing or packaging for distribution, are able to benefit greatly from the Island's lower labor costs and high worker productivity.
3. Capital Intensive operations	Puerto Rico's tax advantages (income and property tax exemption, flexible and lower tax rates after tax exemption period expires) permits a short payout period which makes possible earlier distribution of earnings. It also enables chemical manufacturers to reinvest earnings for plant expansion or product diversification at a rate roughly twice that of mainland manufacturers where corporate and property taxes would have to be paid. Reinvestments are eligible for new tax exemption grants under certain conditions.

4. Products based on local raw materials

Puerto Rico's local raw materials, such as sugar, silica sand, salt limestone, etc., and basic chemicals already produced on the Island, provide a low- cost basis for the production of a multitude of other chemicals and allied products.
Petrochemical production, for example, benefits from a local supply of crude oil by-products from the Island's refineries; other petroleum derivatives can be economically supplied from nearby Venezuela.

FACTORS FAVORING MANUFACTURE OF CHEMICALS IN PUERTO RICO

1. Free access to the U. S. mainland market since Puerto Rico is within the U. S. Tariff System.

2. Tax exemption of Commonwealth taxes for a period of up to 10 years. In addition Federal Internal Revenue laws do not apply in Puerto Rico. Chemical manufacturers can also enjoy the privilege of flexible depreciation when their tax exemption grant expires.

3. Comparatively low labor costs and a large supply of semi-skilled and unskilled labor are available on the Island.

4. Wide variety of Government and community assistance and services to chemical manufacturers; including universities and government research laboratories.

5. Basic raw materials and services are readily available. Some of those not locally produced are available at mainland prices.

6. Location advantage to serve the Caribbean, South American and European markets, including opportunities offered by the Mayaguez Foreign Trade Zone and the local Puerto Rican market proper.

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CASE STUDY

COMMONWEALTH OIL REFINING CO., INC.

- Operation and Products -

Commonwealth Oil Refining Co.'s facilities cover 112 acres and are situated at Guayanilla Bay, a protected deep water harbor fifteen miles west of Ponce. It employs 823 workers, 85 of which are continentals; the remainder are local personnel.

It is the 32nd largest U. S. petroleum refinery. Presently, it has a daily throughput capacity of 75,000 barrels which embraces two complete refinery units. One has a daily capacity of 30,000 barrels and the other has a daily capacity of 45,000 barrels.

Of the total Puerto Rican demand of approximately 53,000 barrels per day, Commonwealth Oil currently supplies approximately 65% or 35,000 barrels; Caribbean, the Island's other refinery, supplies about 11,000 barrels, the remaining amount is brought in by various importers.

Equipment

CORCO's equipment consist of: two crude oil atmospheric and vacuum distillation units, two catalytic reformers, two catalytic cracking and vapor recovery units, polymerization units, alkalization unit, acid plant, extraction plant, steam generating plants.

Products

Commonwealth Oil is currently producing: 115/145, 100/130 aviation gasolines, premium and regular gasolines, JP-4 aviation turbo fuel, Diesel oil, gas oil, No. 2 Heating oil, No. 4 Fuel oil, kerosene, No. 6 Fuel oil, pitch LPG, gas, special cycle oils.

Operating Scheme

The Venezuelan crude goes through atmospheric distillation. From there the streams go on to catalytic cracking. Cracked products are: cracked gasoline, heavy cycle oil that is blended into fuel oil and gases.

The gases go to a gas separation and gasoline stabilization plant where the light components are removed from the gasoline to reduce its vapor pressure to an acceptable value; at the same time the gases are separated into three principal streams. 1) C_4 and heavier, principally butane, butylenes, pentane and amylenes; 2) C_3 fraction consisting primarily of propane and propylene, with a small amount of lighter components. About 70% of the total propane and propylene of the cracking gases is obtained in this stream; most of the remainder goes into the next stream of lighter gases. 3) A light gas fraction consisting of ethane, ethylene, methane and hydrogen. This fraction contains about 30% of the total propane and propylene of the refinery gases.

Destination of Separated Gas Streams

The C_3 stream goes to catalytic polymerization; the C_4 stream goes to catalytic polymerization or to catalytic alkalization. Both of these processes produce aviation gasoline.

Before being fed to the polymerization reactor, the C_3 stream has to be cleaned of hydrogen sulfide, since the latter spoils the catalyst. The clean C_3 stream goes through the reactor where the propylene is consumed, but the propane goes through unchanged and emerges in the tail gases. This propane can be used for several alternate purposes, e.g., for refinery fuel, for the production of liquified propane (LPG) for commercial sales, or it can be used for the manufacture of ethylene by cracking.

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Product Distribution

In total, about 50% of CORCO's production is consumed locally with the balance being shipped to the mainland by the purchasers of the products. A small amount is shipped to foreign markets.

Adjoining the refinery is the South Coast Steam Electric Generating Station of the Puerto Rico Water Resources Authority, completed in 1958, to which Commonwealth Oil supplies 3,000 barrels per day of low-cost high efficiency fuel. About 1,000 barrels per day of refinery gas is sold to Union Carbide's ethylene glycol plant, completed in 1959. It is due to supply additional quantities of the same feedstock when Caribe completes its 110-million lbs./year polyethylene plant at the same site.

Finance

Net sales in 1960 totaled $76.7 million, with a net income of $6.6 million. Sales during the first 6 months of 1961 are running 20% higher than the same period last year, net income has already passed the $6 million mark (see attached chart).

Commonwealth Oil which has fixed assets of $50 million and total assets of over $75 million, rank 481 in Fortune's Directory of the "500 Largest U. S. Industrial Corporations", and is listed as having the highest return on investment of all companies (43.4 per cent). The President has stated that this year's return would be about 28% when adjusted for equity dilution.

Tax Exemption

The refinery presently operates under two separate grants of tax exemption from the Puerto Rican Government. The first was the original grant which terminates December 31, 1966. This grant exempts 100 per cent of the income

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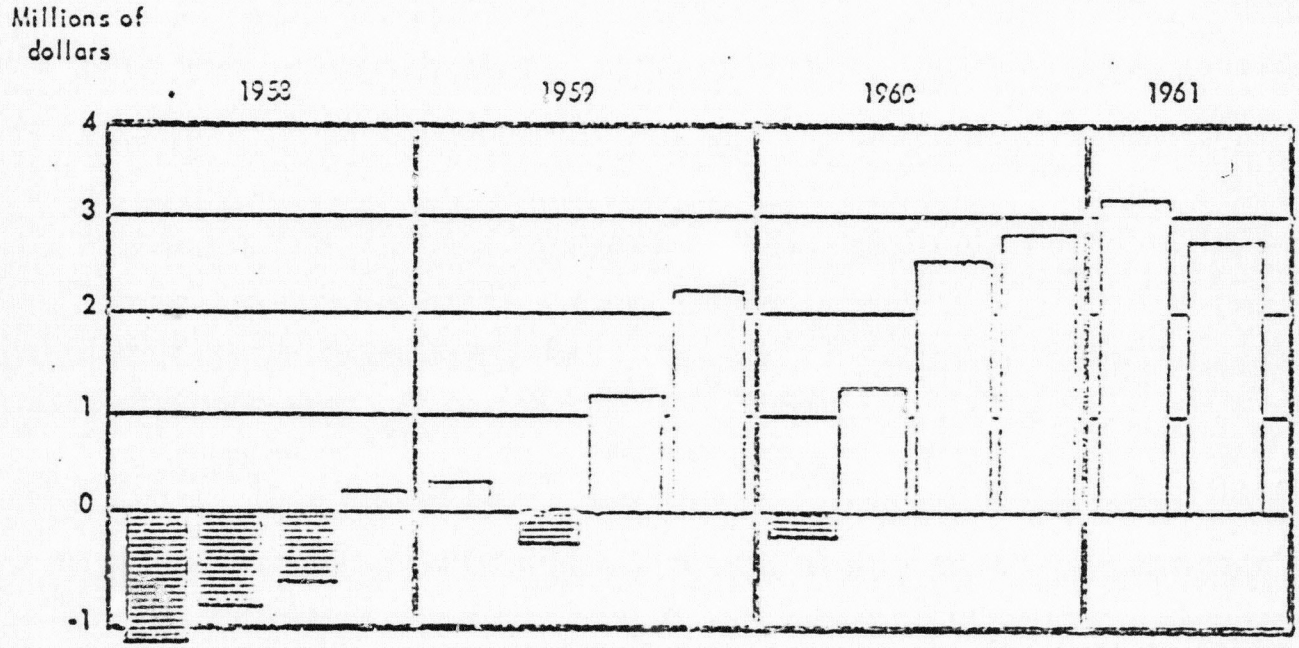
Commonwealth Oil Refining Company, Inc.

Net Profit (Loss) by Quarters



(000 omitted)

	1958	1959	1960	1961
1st Qtr.	(1,190)	235	(331)	3,275
2nd Qtr.	(973)	(362)	1,385	2,828
3rd Qtr.	(671)	1,028	2,619	
4th Qtr.	161	2,234	2,945	
Year	(2,673)	3,135	6,618	

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derived from refinery and related operations. In addition, all assets devoted to refinery operations and related activities are exempt from Puerto Rican property taxes until December 31, 1966.

The second grant of tax exemption in effect exempts from income tax two-thirds of all income from refinery operations and related activities for an additional three years — from January 1, 1967, until December 31, 1969 — and $10,000,000 of the refineries fixed assets from property tax for the same three years.

After expiration of tax exemption, Commonwealth Oil Refining will not be required to commence payment of income taxes immediately. Puerto Rican tax law specifically permits industrial companies, after expiration of tax exemption, to charge "flexible depreciation", which means that depreciable assets can be depreciated at any annual rate desired so as to reduce, or eliminate altogether taxable income for a period.

Another feature of Puerto Rico's tax exemption program is that dividends paid at any time from income derived from tax exempt operations during their first seven years are tax exempt for residents of Puerto Rico or of tax exempt jurisdictions.

Future

Commonwealth Oil Refinery's faith in the industrial growth of Puerto Rico is demonstrated by recent announcement of their intentions to expand their operations into the field of petrochemicals. The Company plans to commence construction early in 1962 of a plant (approximate cost $6.5 million) adjacent to the refinery for an initial production of 50,000,000 pounds per year of naphthalene and other aromatics.

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CHEMICALS AND ALLIED PRODUCTS MANUFACTURED IN PUERTO RICO

Acetylene

Adhesives

Adrenalin

Alcohol (aromatic, denatured ethyl)

Ammonia

Ammoniated Superphosphate

Ammonium Sulphate

Analgesic Cough Syrup

Anhydrous Ammonia

Anti-Mosquito Spirals

Antiseptics

Asphaltic compounds

Baby Powder

Bay Oil

Bay Rum

Bleaches

Carbon Dioxide

Caustic Soda*

Chlorine*

Colognes

Cosmetics

Cough Syrup

Detergents (powdered and liquid)

Diesel oil

Enamels

Ethylene Glycol

Ethical Pharmaceutical Products

Fertilizers (chemical and dry mix)

Fungicides

Fireworks

Gasoline

Germicides

Glycols

Hormones, Synthetic

Herbicides

Hair Dressing Perfumes

Hydrogen

Injectable Medicines

Insecticides

Lacquers

Laxatives

Liquid Gases

Medicines

Muriatic Acid

Nitrogen

Oxygen

Paints

Perfumes

Perfumed Alcohol in Bay Rum

Pharmaceuticals

Polyester Resin Compounds

Polyethylene*

Polyethylene films and bags

Polyurethane foam

Potassium Sulphate

Phthalic Anhydride*

Putty

Salt, Raw, Refined

Silicon

Soap

Sodium Hypochorite

Steriod Hormones (synthetic)

Sulfate of Potash

Sulfur (elemental)

Sulfuric Acid

Superphosphate

Synthetic Plasma

Textile Dyes

Toilet Cream

Toilet Preparations

Tooth Paste

Varnishes

Vitamins*

Weed Killers

* To be Produced Shortly

Part of Dec. 1

MANUFACTURERS OF CHEMICALS AND ALLIED PRODUCTS IN PUERTO RICO E 1780

Puerto Rican Name and Location	Mainland Affiliate	Product and Year Firm Established
Petroleum Refining:		
Caribbean Refining Co. Cataño, P.R.	Cosden Petroleum Corp. Big Spring, Texas and Gulf Oil Corp. Pittsburgh, Pa. (and) Pontiac Refining Co. Corpus Christi, Texas	Oil refining: liquid petroleum gas, gasoline, kerosene, diesel oil, fuel oil, elemental sulphur, etc. 1955
Commonwealth Oil Refining Co., Inc. Guayanilla, P.R.	Commonwealth Oil Refining Co. New York, N. Y.	Oil refining: liquid petroleum gas, gasoline, kerosene, diesel oil, fuel oil 1955
Industrial Inorganic and Organic Chemicals:		
Autoridad de Tierras Barranquitas, P.R.	Local	Calcium Carbonate
Autoridad de Tierras de Puerto Rico Programa de Producción de Carbonato Calizo Santurce, P.R.	Local	Calcium Carbonate
Caribe Nitrogen, Corp. Guánica, P.R.	W. R. Grace & Co. Memphis, Tenn.	Sulfuric acid, ammonium sulfate, anhydrous ammonia, calcium, superphosphate 1956
Destilería Serrallés, Inc. Ponce, P.R.	Local	Industrial alcohol 1936
Gas Product, Inc. Río Piedras, P.R.	Local	Oxygen and acetylene
Household Necessities, Inc. Cataño, P.R.		Bleaches, detergents 1960
Industrial Productora de Gas Ponce, P.R.	Local	Oxygen, acetylene and nitrogen 1945

Puerto Rican Name and Location	Mainland Affiliate	Product and Year Firm Established
Industrial Inorganic and Organic Chemicals (cont'd.):		
International Metalloids Inc. Toa Alta, P.R.	W. R. Grace & Co. Baltimore, Md.	High purity silicon 1958
José del Río Morovis, P.R.	Local	Industrial alcohol
Liquid Air Inc. Cataño, P.R.		Liquid oxygen and nitrogen 1961
Northern Compressed Gases Inc. Cataño, P.R.	Local	Oxygen, acetylene 1959
Planta de Carbonato Calizo Aguas Buenas, P.R.	Local	Calcium Carbonate
Planta de Carbonato Calizo Ciales, P.R.	Local	Calcium Carbonate
Ponce Chemicals Industries Inc. Peñuelas, P.R.	Morton Chemical Co. Chicago, Illinois	Chlorine and caustic soda PE
P. R. Phosphate and Works (Division of Ochoa Fertilizer Corp.) Hato Rey, P.R.	Local	Muriatic acid, sulphate of potash, superphosphate 1936
Puerto Rico Distilling Co. Arecibo, P.R.	Local	Denaturated and ethylic alcohol
Puerto Rico Gases Corp. Mayaguez, P.R.	Local	Oxygen, acetylene 1950
Reichhold Chemical del Caribe, Inc.	Reichhold Chemicals, Inc. White Plains, N. Y.	Resins and plastic substances PE
Santamaría Gases, Inc. Bayamón, P.R.	Local	Oxygen, acetylene, nitrogen and carbon dioxide 1932

Puerto Rican Name and Location	Mainland Affiliate	Product and Year Firm Established
Industrial Inorganic and Organic Chemicals (cont'd.):		
Stepan Chemical Ponce, P.R.	Stepan Chemical Northfield, Ill.	Phthalic anhydride PE
Union Carbide Caribe Inc. Peñuelas, P.R.	Union Carbide Int'l. New York, N.Y.	Glycols-monoethylene, diethylene, triethylene 1959
Primary Plastics Materials:		
Marson Corporation Hato Rey, P.R.	Marson Corp. Revere, Mass.	Polyester resin compounds 1959
Union Carbide Caribe Peñuelas, P.R.	Union Carbide Int'l. New York, N.Y.	Polyethylene and polyethylene compounds PE
Drugs and Medicines:		
Afleg Hemol Pharmaceutical Inc. Hato Rey, P.R.	Local	Multi-vitamins, tonics, cough syrups, capsules, anti-rheumatic and anti-allergenic products, etc. 1950
American Tropical Remedy Santurce, P.R.	Local	Medicines and toilet preparations 1956
Arroyo Pharmaceutical Corp. Arroyo, P.R.	Local	Multi-vitamins 1960
Arshell Laboratories Inc. Río Piedras, P.R.	Lawrence Rapport Chicago, Ill.	Intramuscular iron complex 1961
Baxter Laboratories of P.R. Hato Rey, P.R.	None	Intravenous solutions, expandable plastic administration sets, donor sets 1958
Calbiochem Caribe, Inc. Arecibo, P.R.	California Research Los Angeles, California	Biochemicals, hormones, vitamins, antibiotics PE

Puerto Rican Name and Location	Mainland Affiliate	Product and Year Firm Established
Drugs and Medicines (cont'd.):		
Chemicals Inc. Luquillo, P.R.	Weller Electric Mfg. Co. Easton, Pa.	Synthetic plasma 1958
Compañía Industrial Farmaceutica, Inc. Santurce, P.R.	Local	Cathartics, analgesics and cough syrups, toilet preparations 1949
Dianovin Pharmaceuticals, Inc. Santurce, P.R.	Local	Capsules, tables, products for injections 1953
Doracol Laboratories Río Piedras, P.R.	Local	Anti-fever, antispasmodic, analgesics and other preparations 1953
Emulsión Jiménez Cataño, P.R.	Local	Cod liver oil emulsion 1948
Eneglotaria Medicine Co. Santurce, P.R.	Local	Bay rum, cough syrups, anti-acid preparations, pomades and antibiotic suspensions 1929
The Granchel Medicine Co. Hato Rey, P.R.	Local	Cough syrups, antacids, emulsions, rubbing alcohol, lotions 1944
Horner Laboratories Santurce, P.R.	Local	Injections, tablets, elixirs, granulations 1952
The Juvenilina Co. Ponce, P.R.	Local	Cough syrups, bay rum, liniments cosmetics, hair tints 1904
Laboratorios Flar-Arkadia (Flar Medicines Co.) Coamo, P.R.	Local	Skin lotions, rubbing alcohol, hair dye tablets 1930

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Puerto Rican Name and Location	Mainland Affiliate	Product and Year Firm Established
Drugs and Medicines (cont'd.):		
Laboratorios Seín Río Piedras, P.R.	Local	Cathartics, cough syrups, analgesics, tonics, antacids, elixirs 1958
Laboratorios Terrier, Inc. Hato Rey, P.R.	Local	Injections, cough syrups, tonics, tablets 1941
Manuel Marín Co. Mayaguez, P.R.	Local	Cough syrups, cathartics, antacids, liniments, tablets, eye drops, elixirs, tonics
Méndez Laboratorios de America Inc Hato Rey, P.R.	Local	Tablets, eye drops, elixirs, tonics 1945
Mentosan Laboratory Santurce, P.R.	Local	Liniments, pomades 1940
Nutritional Specialties Arecibo, P.R.	Universal Nutritions, Inc. New York, N.Y.	Vitamins, food supplements 1961
Muclefort Medicine Co. Hato Rey, P.R.	Local	Tonics, syrups, liniments, ointments 1943
Parke Davis & Co. Carolina, P.R.	Parke Davis & Co. Int'l. Detroit, Mitch.	Vitamins, steri-vial, ampoules, antibiotics, capsules, anesthetics, other drugs 1960
Parke & Davis Co. #2 Carolina, P.R.	Parke Davis & Co. Detroit, Michigan	Injectable products PE
Robertson Laboratories Hato Rey, P.R.		Cough syrups, rubbing alcohol 1960
Pharmaceutical Products Co., Inc. Hato Rey, P.R.	Odgen Corp. New York, N.Y.	Drugs, chemicals, hormones 1950

Puerto Rican Names and Location	Mainland Affiliate	Product and Year Firm Established
Rogatol Pharmaceutical Co., Inc. Hato Rey, P.R.	Local	Injectables, tonics anthelmintics 1944
Sterling Products Int'l. Inc. Hato Rey, P.R.	Sterling Drugs Inc.	Cough tablets and syrups, analgesics, anthelmintics, hair oils 1953
Town Pharmacal Inc Aibonito, P.R.	Local	Cough syrups, anthartics, antacids, tonics 1952
Western Fher Labs., Inc. Ponce, P.R.	C. H. Boehringer Sohn	Pharmaceutical active ingredients 1961
Western Pharmacal Laboratories Mayaguez, P.R.	Local	Cough syrups, liniments , antacids 1961

Soap, Detergents and Cleaning Preparations, Perfumes, Cosmetics and Other Toilet Preparations:

Colgate Palmolive Co. San Juan, P. R.	Colgate Palmolive Co. New York, N. Y.	Dental cream PE
Commonwealth Soap Co. Trujillo Alto, P.R.	Local	Washing soap, coconut oil, refined animal fat 1961
Curtis Laboratories Inc. Hato Rey, P.R.	Local	Cosmetics and other toilet preparations 1956
Diversey of P.R., Inc. Hato Rey, P.R.	Diversey Corp. Illinois	Sodium hypochlorite, detergents and chemical compounds 1957
Fábrica Fernández, Inc. Bayamón, P.R.	Local	Toilet preparations 1951
Fábrica Barnés Santurce, P.R.	Local	Toilet preparations 1865

Puerto Rican Name and Location	Mainland Affiliate	Product and Year Firm Established
Soap, Detergents and Cleaning Preparations, Perfumes, Cosmetics and Other Toilet Preparations (cont'd.):		
Hacienda Santa Elena Utuado, P.R.	Local	Bay oil 1950
Industrial Criollo Guaynabo, P.R.		Bay Rum
Insular Trading Co., Inc. San Juan, P.R.	Local	Toilet preparations 1946
Island Chemicals Inc. Cataño, P.R.	Crestco Dyes & Chemical Brooklyn, New York	Textile dyes, Detergents and soaps 1960
Johnson & Johnson Interamerica Carolina, P.R.	Johnson & Johnson Interamerica New Brunswick, N. J.	Baby powder 1961
Kaufman & Co., Inc. Trujillo Alto, P.R.	Local	Anti mosquito spirals 1956
Laboratorios Gravi de P. R., Inc. Carolina, P.R.	Lab's Gravi Internacionales, S.A. Coral Gables, Fla.	Tooth paste, perfumes toiletries 1961
Multi-Chemical Products, Inc. Río Piedras, P.R.	Local	Liquid soaps, detergents 1954
P. R. Bay Oil Distilling Guayama, P.R.	Local	Bay oil
Puerto Rico Distilling Arecibo, P.R.	Local	Toilet preparations 1911
Paints, Varnishes, Lacquers, Enamels and Allied Products:		
American Paints Corp. Río Piedras, P.R.	Local	Paints 1957
Economy Products Co. Bayamón, P.R.	Local	Paints, lacquers, varnishes 1956
Fuller Co. (Caribbean), Inc. Bayamón, P.R.	W. P. Fuller & Co. San Francisco, California	Enamels, lacquers and paints 1961

Puerto Rican Name and Location	Mainland Affiliate	Product and Year Firm Established
Paints, Varnishes, Lacquers, Enamels and Allied Products (cont'd.):		
Marson Corp. of P.R. Hato Rey, P.R.	Marson Corp. Revere, Mass.	Putty 1959
Superior Paints Mfg. Co. Guaynabo, P.R.	Local	Paints, lacquers 1952
Testor Adhesive & Paint Co. Bayamón, P.R.	Testor Chemical Co. Rockford, Illinois	Adhesives, paints adhesive enamel lacquers 1958
Agricultural and Miscellaneous Chemicals:		
Almacenes El Rey Guaynabo, P.R.	Local	Insecticides 1938
California Chemical Corp. Carolina, P.R.	California Spray Chemical Corp. Orlando, Fla.	Insecticides and fungicides 1953
Casco Sales Aguirre, P.R.	Local	Weed killers 1956
Felix Feliciano Morales Industrias Nacionales Santurce, P.R.	Local	Insecticides
Peko Manufacturing Arecibo, P.R.	Local	Insecticides
Southern Agricultural Chemicals, Inc. Ponce, P.R.	Local	Herbicides 1959
Vineland Chemical of P. R., Inc. Río Grande, P.R.	Vineland Chemical Vineland, N. J.	Herbicides (Industrial organic chemicals) 1960
Armour Chemical Agricultural Co. San Juan, P.R.	Local	Chemical fertilizers 1920
Cipriano Manrique, Inc. Caguas, P.R.	Local	Mixed fertilizers 1930
Marqués Comercial, Inc. Arecibo, P.R.	Local	Mixed fertilizers

Puerto Rican Name and Location	Mainland Affiliate	Product and Year Firm Established
Agricultural and Miscellaneous Chemicals (cont'd.):		
Ochoa Fertilizer Corp. Hato Rey, P.R.	Local	Fertilizers, potassium sulphate, superphosphate 1950
San Miguel Fertilizer Corp. San Juan, P.R.	Local	Mixed fertilizers 1957
Super-A-Fertilizer Works, Inc. Mayaguez, P.R.	Local	Fertilizers 1959
Salinas de Rafael Pagán Guánica, P.R.	Local	Raw salt 1908
Ponce Salt Industries Corp. Peñuelas, P.R.	Local	Refined and raw salt 1959
Puerto Rico Salt Works, Inc. Cabo Rojo, P.R.	Local	Raw salt 1935
Salinas Botoncillo Lajas, P.R.	Local	Raw salt
Salinas Fortuna Lajas, P.R.	Local	Raw salt
Salinas Papayo, Inc. Lajas, P.R.	Local	Raw salt 1939
Salinas La Providencia Guánica, P.R.	Local	Raw salt
Fábrica de Fuegos Artificiales de Guillermo Rivera San Sebastián, P.R.	Local	Fireworks 1929
Andrés Lugo Viñas Santurce, P.R.	Local	Case sealing glue in paste
José Yulfo Soto Aguadilla, P.R.	Local	Fireworks

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COMMONWEALTH OF PUERTO RICO
ECONOMIC DEVELOPMENT ADMINISTRATION

With Offices In

NEW YORK 19, New York
666 Fifth Avenue
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MIAMI 32, Florida
Dupont Plaza Center
Suit 709-72
Phone: FRanklin 7-2618

BOSTON 16, Massachusetts
607 Boylston Street
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PHILADELPHIA 3, Pennsylvania
6 Pen Center
Phone: LOcust 8-2665

FRANKFURT/MAIN, Germany
Hotel Savgnystrasse
Phone: 720441

ST. LOUIS 1, Missouri
Paul Brown Building
818 Olive Street
Phone: CHestnut 15358

SANTURCE, SAN JUAN, P.R.
Banco Popular Building
Stop 22
Phone: 723-0040

E 1790

DX 101

A REPORT IN A BLUE FIBER BINDER ENTITLED "CHEMISTRY AND ALLIED PRODUCTS INDUSTRY IN PUERTO RICO", DATED DECEMBER, 1961.

E 1791

A copy of defendant's exhibit 101
is in file drawer #2.

D-43, Letter, Durand to Texaco, March 7, 1962

D-43

E 179?
Respondents Exhibit 3
for Identification
Sam J. Van Eyning
3/7/73

March 7, 1962

Mr. W.H. Edwards
Texaco Puerto Rico, Inc.
P. O. Box 4429
San Juan 22, Puerto Rico

Dear Mr. Edwards:

Thank you for your letter of February 20.

The Economic Development Administration welcomes the fact that your parent company, Texaco Inc., is studying the feasibility of establishing an oil refinery in Puerto Rico.

I have been informed by Mr. Sam Van Eyning of this Administration of the meeting he had with you and your associates last week. Mr. Van Eyning has told me that he emphasized the importance of petrochemical production in relation to Texaco's feasibility study of establishing an oil refinery in Puerto Rico.

It is my opinion that feasibility of the Texaco project will hinge on petrochemical production. This is so because Puerto Rico is now a net exporter of petroleum products to the U.S. This being so, I could not see my way clear to endorsing to the U.S. Oil Import Administration any refinery project which would have the sole effect of increasing Puerto Rico's shipments of petroleum products to the U.S.

A refinery project geared to joint production of petrochemicals and petroleum products would be a wholly different matter. The oil import quota problems in relation to such a project would still be substantial but this Administration would cooperate fully with Texaco in an effort to bring such a project into being.

I suggest that the most expeditous way in which to proceed with the project is for the appropriate officials in the headquarters of your parent company in New York to get in touch with Mr. J. Díaz Hernández who is in charge of Stateside operations for the Economic Development Administration. Mr. Díaz Hernández' office is at 666 Fifth Avenue, New York City.

We here in San Juan will, of course, be happy to help you in any way which we can.

Sincerely yours,

Rafael Durand
Administrator

RD:SVH:cmq
cc: J. Díaz Hernández

D-125, A.D. Little Memorandum, January 10, 1963

D-125 (conformed copy)

DX 236
E 1793

LIMITED

To Personnel Directly Concerned

D. Reid Weedon 25/305A 4212 January 10, 1963
W. J. Norton 25/302

Prudential Oil Company

cc: R. F. Messing 35/369
W. T. Nichols 20/653
H. Christoffers N.Y.
S. H. Swift Puerto Rico
Business Development

ACTION: W.J. Norton to write Shippee a letter of interest. ADL to wait pending political clarification of project.

W.J. Norton and I met with representatives of Prudential Oil Company in New York on Friday, January 4th, to discuss a study of a proposed refiner for Puerto Rico. Present for Prudential were Nathan Shippee, Chairman, and Thomas R. Young who originally contacted ADL. Donald M. Blinken of E. M. Warburg & Co. represented potential financial backers of the project and Ivan E. Irizarry, Assistant Regional Manager of the Economic Development Administration, represented the Commonwealth of Puerto Rico.

Prudential Oil is a Greenwich, Conn. tax money syndicate, whose members have become interested in a separate project for a Puerto Rican refinery The major immediate problem facing them is whether or not they can presen a strong enough case to get a crude oil import quota (without which no one seems to feel the project is feasible). To overcome the strict and explicit position on new Puerto Rican quotas stated in Kennedy's Presidential Proclamation of last November, the project will require wholehearted political support on the part of the Puerto Rican Economic Development Administration. Thus, EDA (New York, at least) appears willing to supply if the refinery is "petrochemically oriented" rather than designed primarily for conventional fuel products as the existing Commonwealth and Caribbean refineries now are. The two criteria for EDA political support were stated by Irizarry to be:

1) That the refinery be "petrochemically oriented".
2) That it be a sound business venture.

Throughout the entire discussion ran a thread of general belief that there was something which such a refinery could do for the development of a chemical industry in Puerto Rico which a conventional refinery could not or would not do, and that this would therefore justify the EDA's going to do battle with the administration.

The test of what constitutes sufficient petrochemical orientation to justify a quota was never pinned down to our satisfaction, in spite of several attempts to explore this issue. In Shippee's eyes it appears to be a refinery which has contracted with EDA to do the following things regardless of what percent of the crude raw material ultimately ends up as chemicals.

James T. Jensen

Prudential Oil Company

E 1794

1) A refinery which has the flexibility to supply a wide variety of feedstocks on demand without regard to maximizing the return on conventional products.
2) One which will offer such feedstocks at competitive prices even though these prices may not provide an attractive return for a normal commercial venture. In such a case, the refinery would expect to be subsidized by Puerto Rico to the extent of a utility-type return.
3) One which is offered first crack at any island project brought to the government as a quid pro quo for the limitations imposed on its operation by the first two points.

Although the Prudential group preferred not to go into design details in this meeting, they mentioned three design studies. Two of these were by U.O.P. and one was submitted by Parsons. One of the U.O.P. studies proposed a maximum 40% yield of chemicals but the project did not appear economic at this high level and by implications, petrochemical orientation could still be achieved at chemical yield levels wall below this point.

The refinery does not intend to make chemicals itself nor does it intend to market fuel products. Shippee exhibited a letter from Stanley Learne President of Phillips, offering to supply the refinery with crude oil an to take away any fuel products remaining after the sale of chemical feed stocks. While Shippee placed great emphasis on the importance of this letter of intent, it obviously could be such a good deal for Phillips (which would be happy to convert its surplus Venezuelan crude into U.S. products in excess of its normal quota limit), that its value is subject to reservation. The group showed no similar letters of intent on chemical projects. They claim to have one group interested in making aromatics from the naphtha cuts from the refinery and have an expression of interest on the part of Monsanto for a particular waxy distillate. They have talked to Celanese and Phillips about chemicals as well, but w got no other details on chemical deals. Young also made a comment about the possibility of making tetra ethyl lead on the island which I would have discounted had it not been for the fact that Young himself was involved in putting together the Houston TEL project.

A man by the name of Dale Fisbeck is apparently handling many of the technical details of the refinery. He has been involved with earlier projects such as the Commonwealth Refinery. The financial backing would be supplied by E.M. Warburg (with Blinken and W. Gruber taking the direct interest for that firm), and Kuhn Loeb (with Jerome Katzman and Peter Shea).

The flavor of this project depends heavily on the political acceptance which it receives at various levels. ADL was asked in this meeting if it would be prepared to propose on such a study if the initial political readings were favorable. These are being taken in a meeting with Secreta Udall on Thursday, January 10th. The participants of that meeting were not made known to us, but allusions were made at various points

to people such as Oscar Chapman and Robert Anderson, both former cabinet officials. Cy believes Munoz Marin was also alluded to but that did not get through to me.

ADL will not be involved in project details until after the meeting. At that time, if warranted, we will then meet with some of the other people involved.

We left the matter with ADL stating that it would be willing to work on such a project on behalf of the Prudential group and reporting to the EDA. We agreed to write a letter to Shippee so stating. Meanwhile, we would hold the project in abeyance awaiting the results of the political meeting with Secretary Udall.

James T. Jensen/kri

TO PERSONNEL DIRECTLY CONCERNED

D-125 (original) E-1796

D. Reid Weedon 25/363A
W. J. Norton 25/302

4212 January 10, 1963 1

Prudential Oil Company

cc: R. F. Messing 35/330
W. T. Michels 20/653
H. Christoffers N. Y.
S. H. Swift Puerto Rico
Business Development

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The test of what constitutes sufficient petrochemical orientation to justify a quota was never pinned down to our satisfaction, in spite of several attempts to explore this issue. Mr. Shippee's plan at present to be a refinery which has contracted with EDA to do the following things regardless of what percent of the crude raw material ultimately ends up as chemicals.

Dept 23,6
K. Swift
10 Dec 63

J... W. Jones 35/100

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The flavor of this project depends heavily on the political acceptance which it receives at various levels. All were polled in the meeting if it would be proposed to Puerto Rico at such a ready [illegible] political readings were favorable. Shippee is being taken to a meeting with Secretary Udall on Thursday, January 10th. The participants of that meeting were not made known to us, but

Jesse T. Jensen

allusions were made at various points to people such as Oscar Chapman and Robert Anderson, both former cabinet officials. Cy believes Hugo Marie was also alluded to but that did not get through to me.

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James T. Jerom/lml

D-128, A.D. Little Memorandum, March 5, 1963

CONFIDENTIAL

MEMORANDUM

D-128
E 1799

(Dictated March 1, 1963)

J. Jensen

Case:

Date: March 5, 1963

Page: 1

cc: D. R. Weedon
S. H. Swift

Subject: Prudential Oil Corporation - EDA/Puerto Rico

Nathan Shippee, Chairman of Prudential Oil Corporation, called me twice last week to report that their negotiations with EDA/Puerto Rico are not proceeding well. He says that EDA insists that the 30,000 barrel refinery must be guaranteed to utilize about 70% of the fuel oil equipment in petrochemicals before EDA will formally request permission from the Oil Import Board in Washington to establish a "core" refinery. He asked if ADL had any thoughts that could be injected as a way to convince the Oil Import Board and/or EDA that such a refinery was essentially impossible in Puerto Rico and that another basis should be selected.

You, Jim Bradley and I agree that a refinery this large would be hardput to find markets for petrochemical products utilizing 70% of the feedstock - whether in Puerto Rico or in other areas with heavy market requirements. Therefore, I am writing to Nathan Shippee to tell him that we have no ideas to advance at the moment.

I called Ivan Irizarry (in Diaz Hernández's absence) and learned that EDA is becoming disenchanted with Prudential. He said that Prudential had put together a nonprofessional prospectus and had included several embarrassing statements that they had been told to keep out of written reports. Ivan said, however, that EDA was still working through Oscar Chapman to set realizable goals for the "core" refinery with the Oil Import Board. Upon establishment of these goals, Ivan says that he and Diaz Hernández have better prospective companies to deal with than Prudential Oil. He recommended that we "sit tight" because ADL will be recommended by EDA as the consultant to review any proposals that are eventually made for consideration by the Oil Import Board.

Incidentally, Ivan is being moved to Boston to head up EDA's operations here. I have extended to him any assistance that ADL can provide to him. Ivan appears to be a capable representative of EDA.

Dept 232
10/24/71

From W. J. Norton/jm

Bldg./Room 25/302

D-216, Payment, Omega Management, January 19, 1966

Phillips Petroleum Company

For I.D.

2-9-72 w.s.

57

E 1800

REQUEST FOR PAYMENT

January 19, 1966 19 ____

TREASURY DEPARTMENT:

PLEASE ISSUE Phillips Petroleum Company (INSERT NAME OF COMPANY) CHECK, IN THE SUM OF $ 100,000.00

IN FAVOR OF OMEGA MANAGEMENT, INC.

ADDRESS c/o Mr. Jack P. Coan 230 Park Avenue, New York, N. Y.

COVERING payment in full for services rendered in connection with the Puerto Rican project.

(Approved by Stanley Learned)

CHARGE Acct. 3737 - Deferred Misc. Expenses - Puerto Rico

R. D. Stra

R.F.E. } NO. ____
A.F.E. }

FOR GENERAL OFFICE USE ONLY

DIV.	GEN. LGR.	LOC	UNIT	CL.	FEATURE	BUDGET Code	BUDGET R.F.E.	AMOUNT	
	3737							100,000	00

Form 35 1-56

1 1034 100

Executive DEPARTMENT

APPROVED N D Keeler

BEST COPY AVAILABLE

B66

D-319, Transcript of Deposition of N.M. Shippee, December 29, 1975, in Shippee v. Mohawk Airlines (with docket entries)

D-319

E 1801

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

- x

NATHAN M. SHIPPEE, :

Plaintiff, :

-against- :

MOHAWK AIRLINES, INC., :

Defendants. :

- x

Deposition of Nathan M. Shippee, the plaintiff, taken by defendant pursuant to stipulation dated May 4, 1965, at the offices of Hyman, Hayman & Harris, Esqs., 111 Fulton Street, New York, New York, on Wednesday, December 29, 1965, at 2:15 p.m., before Walter Shapiro, a Notary Public within and for the State of New York.

BAR ASSOCIATION REPORTING SERVICE
WILLIAM NEWROCK, CSR
36 WEST 44TH STREET
NEW YORK 36, N. Y.
MURRAY HILL 7-0385

BEST COPY AVAILABLE

APPEARANCES:

HYMAN, HAYMAN & HARRIS, ESQS.,
Attorneys for Plaintiff,
111 Fulton Street,
New York, New York.

BY: MELVILLE HARRIS, ESQ.,
of Counsel.

GEORGE J. CONWAY, ESQ.,
Attorney for Defendant,
110 William Street,
New York, New York.

BY: THOMAS J. REDDINGTON, ESQ.,
of Counsel.

oOo

IT IS HEREBY STIPULATED AND AGREED by and between the attorneys for the respective parties hereto that the sealing, filing and certification of the transcript of the within examination before trial be, and the same hereby are, waived; and that said transcript may be signed and sworn to before any Notary Public or Commissioner of Deeds with the same force and effect as if before an officer of this Court;

IT IS FURTHER STIPULATED AND AGREED that all objections, except as to the form of the question, are reserved to the trial of this action.

oOo

N A T H A N M. S H I P P E E, the plaintiff, having been first duly sworn by the Notary Public, was examined and testified as follows:

EXAMINATION BY MR. REDDINGTON:

Q State your full name, please.

A Nathan Mathewson Shippee.

Q Were do you presently reside?

A Brookbon Ridge Drive, Greenwich, Connecticut.

Q How old are you, Mr. Shippee?

A 46.

Q Are you married?

A Yes.

Q Any children?

A Four.

Q Are you employed at the present time?

A I have made my own businesses and I am controlling stockholder and I employ myself.

Q Will you tell us the names of those businesses then, Mr. Shippee?

A Prudential Oil Corporation , Impak Systems; Heritage Land Development Company and N. M. Shippee, Incorporated.

Q What is N. M. Shippee, Inc., briefly?

A A holding company for personal investments.

MR. REDDINGTON: Off the record.

(Discussion off the record.)

Q On July 2, 1963, were you employed?

A It was the same situation. I formed my businesses and I employed myself.

Q It was the same situation as far as your employment and businesses then as it is now?

A Yes.

Q Mr. Shippee, on that date, July 2, 1963, did you meet with an accident?

A Yes.

Q First of all, tell us briefly where it happened?

A At Rochester Airport on taking off in a Mohawk airplane, Flight 112.

Q Tell us where you had come from and where you were going, Mr. Shippee.

A I had flown to Rochester with Mohawk and I was returning home that evening at 5:00 o'clock. I spent a business day with a customer in Rochester.

Q When you say you were returning from Rochester --

A I was going to Westchester Airport.

Q You had taken off from Westchester Airport that morning?

A Yes.

Q And spent the business day in Rochester?

A Right.

Q With whom did you spend the business day in Rochester?

A Weyerhauser Company. They are a client company of the packaging agency of which I was head.

Q Will you tell us approximately what time the accident took place?

A Right after 5:00 o'clock, between 5:00 and 5:30.

Q P.M.?

A Yes.

Q How long after you had boarded the plane, approximately, did the accident take place?

A Between boarding the plane and getting out to the apron or the take-off, it was several minutes, maybe 15 or 20 minutes; but the accident took place, as I recall, within five or six minutes after take-off or very shortly after take-off.

Q We will take it from that point. You say approximately within a few minutes after take-off the accident occurred?

A Yes.

Q I take it there were other people in the plane

besides you?

A The plane was full as far as I recall.

Q About how many would you say were in the plane?

A Approximately 40.

Q Will you tell us about where you were seated in the plane?

A Yes, I was seated on the starboard side on the window just after the wing. In other words, the trailing edge of the wing was just right in front of me on the starboard side.

Q And you say you were seated at the window?

A Yes.

Q Was there some one to your right?

A To my left.

Q Are there two seats on each side of the aisle in that plane?

A Yes, this is a Martin 404. You enter from the rear.

Q Can you tell us in your own words what happened after the take-off, Mr. Shippee?

A When we taxied out to the end of the runway, we were in very heavy winds and heavy rain and hail, and we didn't believe in the plane that we were going to take off, and he faced into the storm and we thought he was going to

stand it out because it was an isolated --

Q I hate to interrupt you but I have to move to strike out what you thought.

MR. HARRIS: Off the record.

(Discussion off the record.)

BY MR. REDDINGTON:

Q Just tell us what you saw.

A I am trying to say that the take-off is part of the whole.

MR. HARRIS: Tell us what you saw done.

THE WITNESS: The weather was of high winds, heavy rain with hailstones and the plane was unsteady at the end of the runway and when it began to go down the runway, it was very unsteady and as we got off the ground, it started to dip and swoop and we climbed unevenly with gyration movements up into the storm, and the cockpit door was open and swinging back and forth wildly. There was a struggle going on the pilot's -- which you say -- to control the ship which was absolutely out of control.

I was saying out loud, "No, no, don't take off", and other people were saying --

Q Excuse me. We can't have what other people said.

A I was saying, "No, no, don't take off in this." And

then we seemed to get into some clear weather and we climbed and then we hit the back part of the storm or another turbulence and we took big swoops and we took three or four large swoops back and forth and finally the left wing caught the ground and I can recall the mud coming up the left wing and blacking out the windows across from me on the left side and the plane cart wheeled on its nose and then I don't remember anything until I came to and I was out on the ground and it was all billowing gasoline, fire, heavy smoke.

Q We will take it one step at a time.

A And there we are. And this took place in a very short time.

Q Can you tell us approximately how long that very short time was?

A No. I have tried to -- no.

MR. HARRIS: Off the record.

(Discussion off the record.)

BY MR. REDDINGTON:

Q Can you tell us, Mr. Shippee, how long the plane was in the air after it left the ground before it hit the ground again?

A No, under ten minutes.

Q Could you estimate how far the plane got off

the ground?

A No.

Q Now, you described heavy winds and heavy rains. Do you know when this began?

A Yes. It began shortly after we boarded the ship before it moved out to the runway.

Q In other words, when you got into the plane, it was not raining?

A That's correct.

Q At what point did you say, as you put it, "Don't take off"?

A When he started to move.

Q Mr. Shippee, had you flown before this time?

A Many times.

Q Can you tell us approximately how many times?

A For 20 years, frequently, almost weekly.

Q Almost weekly for 20 years?

A Yes.

Q And had you flown by Mohawk before?

A Yes.

Q Can you tell us about how often you had flown by Mohawk?

A Infrequently.

Q Can you tell us rather than using the word

"infrequently"? Can you tell us how often of these times you mentioned were Mohawk flights?

A No.

Q Had you flown this particular route before from the Westchester Airport to the Rochester Airport and back again?

A Perhaps, but not that I recall, perhaps.

Q Mr. Shippee, are you claiming lost earnings as the result of being injured in this accident?

A Yes.

Q How much lost earnings are you claiming?

MR. HARRIS: Off the record.

(Discussion off the record.)

MR. REDDINGTON: What is the last question.

(The pending question was read back by the reporter.)

A I don't know exactly.

Q Mr. Shippee, if you don't know exactly, just tell me approximately how much and how you arrive at it and over what period of time you claim these lost earnings.

A In the area of Impak Systems, it is a half a million dollars of lost earnings through the contract of sales to United Shoe Machinery and the contract that we had to sell, which I had negotiated prior to the crash and its

changes subsequently when I was incapacitated is in the area of a half a million dollars.

MR. REDDINGTON: Off the record.

(Discussion off the record.)

BY MR. REDDINGTON:

Q Mr. Shippee, would you explain briefly what you mean by Impak Systems?

A Impak Systems is a company which I formed in 1959 to purchase patents and to make machinery for these patented packaging items and to lease the machinery and license the patents; hence, the name Impak Systems, Inc.

This company was capitalized with $20,000 and two years after was made public for a value of $2,000,000, and I was three years later in the process of selling this company to United Shoe Machinery when the accident happened.

Q United Shoe Machinery, is that another company you own?

A No. United Shoe Machinery is a New York Stock Exchange firm located in Boston in the area of $250,000,000.

Q I am not quite clear on this so I will ask you to explain it to me for my own benefit.

I take it you were negotiating a sale of a corporation, Impak Systems, Inc., to United Shoe Machinery,

Inc.

A My business is to conceive and start businesses and develop them and in this case, having done it, I then sold it to a big company in order to start another business.

Q Were you intending to sell it for $500,000?

A No. The contract of sale was for $1,000,000 with an open-end contract for five years and a participation in the profits and my share was 50 per cent of the million dollars plus 50 per cent of the share of the profits over five years.

Q Had this contract actually been entered into before the crash took place?

A It had been drawn and we were preparing for the closing of it.

Q Again, would you explain to me how you arrive at losing that much. Did they refuse to go through with the deal?

A After the crash, they waited to find out --

Q By they, you mean United Shoe Machinery?

A Yes. -- delayed until they found out what happened to me and this delayed through the summer and when it became apparent that I was not actively reentering the business, the negotiation was taken up by an engineer in the company and was subsequently concluded at a very modest

figure and the division of money gave me $24,000 instead of $500,000 and the rest of the contract bore a very poor comparison to the original.

MR. HARRIS: What was the rest?

THE WITNESS: The rest of the contract didn't give us a participation in profits. It did set a performance above which we could divide three-quarters of a million dollars in three parts, giving me one-third but the goals -- it wasn't an open-end profit contract. It was a stipulated performance contract which probably cannot be achieved, so it was almost meaningless.

Q You will have to excuse my lack of knowledge in this area but I still don't understand on how you arrive at losing $500,000.

A If I signed a contract which was drawn by their lawyers and which we had agreed to at the closing, I would have received a half a million dollars, a five-year contract to run the business and a participation in the profits over this period; and the contract that was finally drawn 18 months later didn't have this provision in it and I received $24,000 and I do not have any position in the company.

Q And do you attribute this to your disability

at the time?

A They do and I do. They were buying the company on the basis that they would have my services for five years to run it.

Q In other words, would you say that the crux of the matter was --

A I wasn't present in the business.

Q -- that you were not able to run this business?

A That's right.

Q So then that would be one area of lost earnings which you claim?

A Yes.

Q Are there any other areas?

A Yes.

Q What is the next one?

A All of my work was to take and develop situations into operations and I took a situation in Puerto Rico to develop a chemical industry for the Commonwealth, and I negotiated with the governor and I had a franchise to do this and I negotiated with Oscar Chapman, former secretary.

Q When was that?

A In 1962.

And I negotiated with Oscar Chapman, former Secretary of the Interior, and with Robert Anderson, former

Secretary of the Treasury, and with Stanley Learned, president of the Phillipps Petroleum Company, and I received from Phillipps Petroleum a contract to supply the crude oil and to buy the chemicals and to supply the technical and operating personnel for a ~~$16~~ 60,000,000 refinery in Puerto Rico, and this contract was dated November 1962 and we were actively organizing the chemical complex in Puerto Rico, in July of 1963, when the accident took place and I was not able to continue with it and the project has gone ahead without me.

Q The project is going ahead without you?

A Yes. It has since been concluded about three weeks ago and it is now a $100,000,000 refinery and a $500,000,000 complex. It is now a $600,000,000 complex in Puerto Rico. It was in the newspapers.

Q Does it have a name?

A Yes, but I don't recall.

Q You can fill the name in when you get this deposition to sign.

A Yes.

(To be inserted:) Phillips Co. Inc

Q How much do you estimate approximately you lost on that deal, Mr. Shippee?

A I don't have any way of calculating it. We are

trying to -- this is one of the indeterminates.

Q If you can give me a rough approximation now and fill it in more exactly when you get the deposition to sign so we can have something to work with.

MR. HARRIS: Off the record.

(Discussion off the record.)

MR. HARRIS: Leave a space.

(To be inserted:) 1/4 of $6,000,000 or $1,500,000.

BY MR. REDDINGTON:

Q You can fill in the space?

A For what?

Q For how much you estimate you lost on this deal.

A Yes.

MR. REDDINGTON: Off the record.

(Discussion off the record.)

Q Mr. Shippee, can you tell me, briefly, how you would estimate your loss on the Puerto Rican oil deal which you were entering at the time of this accident due to the accident?

A Based on the value of the oil in Puerto Rico of $1.50 a barrel, it would amount to $75,000 a day profit potential. On the other hand, based on operating a going business of a $600,000,000 refinery, as a core plant for

a chemical industry on a franchise basis in Puerto Rico, we would look for a ten per cent return on capital investment annually or $6,000,000 per year.

Q Would you tell me now, Mr. Shippee, how you feel or estimate that the accident caused you to lose this money or any part of it?

A I wasn't capable of handling the negotiations or continuing to pursue it. I lost all ability to concentrate and initiate and carry on the project which demanded a lot of time and attention and creative thought.

Q I take it, Mr. Shippee, you are not the only person embarking on this venture?

A I was the only motivater and the chief negotiator and the originator.

I was the chairman of the business and controlling stockholder.

Q Did the negotiations finish and, you say, consummate into the finished product?

A The negotiations, which I was controlling, grounded to a halt and the other interested parties, essentially the Commonwealth of Puerto Rico, in my absence, turned in other directions and completed it without me.

Q Is there a third loss of income which you claim as the result of this accident, Mr. Shippee?

A Yes. The Inpak Systems had been built on a display package machine system. We had two other machine systems, one for frozen foods and another for -- I am trying to describe it -- self-service portions, and neither of these were continued or brought to the market.

Also, I was an inventor --

Q Is this for the one you are going into now?

A No, this is the same part of this. This is in packaging.

Also, I was an inventor who had filed four patent applications in the two years before the accident, one of which is issued to a patent and is owned by the United Shoe & Machinery Company now.

Since the accident, I have not done any more patent filing and this part of my activity has also stopped.

Q You mean the fact that you haven't invented any more since the accident?

A Yes.

Q Can you tell us or estimate how much income you claim to have lost as a result of this area?

A Well, it is also difficult to estimate the potential of the patents that I haven't invented.

Q Yes.

A At the same time --

Q It is impossible, isn't it?

A At the same time the activity of filing patents was an important value to the purchasing company in willingness to pay and retain my services.

Q Was there any other area where you claim to have lost income as the result of the injuries in this crash?

A My history prior to the crash was one of originating businesses and bringing them into operation, and since then I have not orginated any new business and the businesses that I had started have deteriorated or have given up the use of my services.

Q When you state that during the past you had originated businesses, were there any more that you had originated other than the four that I believe you named?

A Yes. Earlier I had formed American Mineral Products Company.

Q Approxiximately when?

A Two years before.

Q About 1960?

A No, 1957.

Q All right, about 1957.

A To mine perloite ore and process it as a filter aid for fine chemicals.

Q Is that all?

A That's all.

Q Mr. Shippee, let me ask you this: Will you authorize my office to examine your income tax returns for the years ~~1957~~ 1961 through the present?

A Yes.

MR. HARRIS: Let us put it this way.

MR. REDDINGTON: Off the record.

(Discussion off the record.)

MR. HARRIS: He will give me copies and I will photostat them for you.

Have you got copies?

THE WITNESS: I presume.

BY MR. REDDINGTON:

Q Your income tax returns for the years ~~1957~~ 1961 through 1964, you will supply them to your attorney and he will photostat them and either give them to us --

MR. HARRIS: I will send them to you.

MR. REDDINGTON: You will send them to us?

MR. HARRIS: Yes, sure.

MR. REDDINGTON: Fair enough.

Q Mr. Shippee, prior to this accident, did you ever suffer a head injury?

A No.

Q Since the accident, have you suffered a head injury?

A No.

Q Mr. Shippee, do you have your medical expenses, the bills which the doctors and hospitals have rendered?

A Yes.

MR. REDDINGTON: If the attorney has them, he can dictate them into the record.

MR. HARRIS: The first one we have is the hospital in Rochester.

THE WITNESS: Highland Hospital in Rochester, New York.

MR. HARRIS: $86.40.

Dr. Isabelle McDonald-Kerr, 88 Lindale Street, Stanford, Connecticut.

THE WITNESS: That is $50.

MR. HARRIS: Dr. Donald H. Millard, 49 Lake Avenue, Greenwich, Connecticut.

THE WITNESS: $40.

MR. HARRIS: Dr. John Christie, 49 Lake Avenue, Greenwich, Connecticut, $57.

Greenwich Hospital, Greenwich, Connecticut, x-rays, $100.

EEG examination, $25.

Dr. Lowenstein, 119 Park Avenue, New York.

THE WITNESS: $125.

Dr. Hellinger, 37th Street and Park Avenue, New York, $25.

Dr. Lowenstein, the second time, $50.

Dr. Jampel --

MR. HARRIS: Robert S., 635 West 165th Street.

THE WITNESS: The amount there is $125.

MR. HARRIS: Presbyterian Medical Center.

THE WITNESS: Right, x-rays, $65.

Dr. Rosenberg, 49 Lake Avenue, Greenwich, Connecticut, $20.

MR. HARRIS: Off the record.

(Discussion off the record.).

THE WITNESS: Horizon Hills, a rest home, Southampton, New York, and that is $246.82.

MR. HARRIS: Off the record.

(Discussion off the record.)

THE WITNESS: The recommendation of Dr. Millard, weekly massage, $120.

BY MR. REDDINGTON:

Q Do I take it, Mr. Shippee, that you still go to this masseur?

A Yes.

Q Once a week.

A Yes.

Q Did you give us his name, by the way?

A Frank. He is one of the two masseurs at the Grand Central YMCA Men's Club, on 47th Street, off Third Avenue.

Q Aside from the masseur, when is the last time you saw any of these doctors which you have just named?

A Monday.

Q And who was that?

A Dr. Rosenberg.

Q How often do you see Dr. Rosenberg?

A I have seen him twice in the last two weeks, but he took over the practice of Dr. Christie, who was my doctor prior to that, and Dr. Christie left to take a staff job at the hospital and Dr. Rosenberg took over.

Q Do I take it you are still under Dr. Lowenstein's care, then?

A Dr. Lowenstein died.

Q Or Dr. Rosenberg? Which is the one you saw last Monday?

A Dr. Rosenberg.

Q Are you still under Dr. Rosenberg's care?

A Yes.

Q What did Dr. Rosenberg do for you last Monday?

A He prescribed kaopectate.

Q What is his specialty?

A Internal medicine.

Q What else did he do for you, if anything?

A I went to him with a condition of diarrhea about two weeks ago and it is continuing and he, on Monday, had me give him a stool sample for examination, which I will learn about tomorrow.

Q Before this diarrhea, what was the last complaint that you had?

A Fatigue under stress.

Q And when was that?

A Since the accident.

Q How often do you get this fatigue under stress?

A Whenever I undergo stree.

Q Mr. Shippee, have you returned to work to any of your businesses at all since this accident?

A Yes.

Q Which business and when?

A As soon as I could after the accident and I don't recall, but within a week I went back to New York to see the business and I tried to appear and carry out my function and I wasn't capable of doing it and each day that I went in for one or two hours I would have to leave the office

and go to a hotel and rest for a couple of hours and then try to come back.

Q How many days did this go on?

A All summer.

Q All summer of 1963?

A And as the fatigue grew into a very nervous condition, I finally was persuaded to go to a psychiatrist, which was Dr. Lowenstein, and I believe that was in mid-winter, perhaps January or February of 1964.

Q How long did you continue under Dr. Lowenstein's care?

A For about a year, when he died, approximately mid-winter of the following year, and then I was transferred to another psychiatrist, Dr. Jampel, and I am still a patient of his at the Presbyterian Hospital.

MR. REDDINGTON: That is all.

(Whereupon, the deposition was concluded.)

oOo

Nathan M. Shippee

Subscribed and sworn to before me
this 18 day of February, 1966.

ELIZABETH L. SHIPPEE
Notary Public, Fairfield County
My Commission expires April 1, 1966

CIVIL DOCKET

UNITED STATES DISTRICT COURT

64 Civ. 2105

E 192

Jury demand date: 7-7-64 by pltff.

Form No. 106 Rev.

TITLE OF CASE	ATTORNEYS
NATHAN M. SHIPPEE vs MOHAWK AIRLINES INC.	For plaintiff: Hyman Hayman & Harris 111 Fulton St NYC For defendant: George J. Conway 110 William St., NYC

STATISTICAL RECORD	COSTS	DATE	NAME OR RECEIPT NO.	REC.	DISB.
J.S. 5 mailed X	Clerk	7-7-64	HYMAN	15 —	
		7-10-64	U.S. TRIAS.		15 —
J.S. 6 mailed ✓	Marshal				
Basis of Action: Personal injury Plane Crash	Docket fee				
	Witness fees				
Action arose at:	Depositions				

E 1827

64 Civ. 2105 . Shippee -vs- Mohawk Airlines Inc 64 C

DATE	PROCEEDINGS	Date Order Judgment No
Y 7-64	Filed complaint and issued summons	
v 27-64	Filed deft's ANSWER & affirmative defenses	GJC
. 1-64	Filed summons & return, served deft. 7-9-64-NDNY	
n 21-65	Filed stip. between parties-Re: Depositions.	
c. 3-65	Filed pltff's NOTE OFISSUE and statement of readiness	
ep 19-66	Filed order pursuant to rules 6 & 13--Sugarman,J	
ep 22-66	Filed pltff's designation of trial counsel.	
v. 29-67	Filed show cause order re: pre-trial memorandum in room 129 ret. 12-5-67-Sugarman, J.	
ec 4-67	Filed stip. & order of discontinuance.-Clerk	

D-323, Draft Complaint, Prudential v. Phillips,
(Supreme Court, New York County)

USA 26a - 478
(ED. 4-22-71)

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

E 182

FPI 81—9-24-75-5GB-4417

IN THE SUPREME COURT OF NEW
NEW YORK COUNTY

PRUDENTIAL OIL CORPORATION,
Plaintiff

v

PHILLIPS PETROLEUM COMPANY and
OSCAR L. CHAPMAN,
Defendants

COMPLAINT

1. Plaintiff is a corporation existing under the laws of Delaware having its principal office at 1 Rockefeller Plaza, City, County and State of New York.

2. Defendant Phillips Petroleum Company is a corporation existing under the laws of Delaware, licensed to do business in the State of New York, having its principal place of business within the State at 80 Broadway, City, County and State of New York.

3. The Hon. Oscar L. Chapman (U.S. Secretary of the Interior, 1950-1953) a defendant in this action, is a non-domiciliary of the State over whom this court has jurisdiction under §302(a) of the Civil Practice Law and Rules. He maintains an office for the practice of law at Pennsylvania Building, 425-13th Street, N.W., Washington, D.C., 20004.

Defts Ex. 221 Id.
ABD
11/16/70

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AS A FIRST CAUSE OF ACTION AGAINST DEFENDANT PHILLIPS

4. Beginning in 1961 the Economic Development Administration of the Commonwealth of Puerto Rico (EDA) consulted with one J.P. Coan of Omega Management, Inc., 230 Park Avenue, New York, N.Y. concerning a project designated "Petroquimica Puertorriqueña" which, as part of "Operation Bootstrap", would enhance the economic development of the Commonwealth by providing raw material for manufacturing industries based upon petrochemicals and thereby help alleviate the massive male unemployment problem of that island. The project envisioned the construction and operation in Puerto Rico of an additional petroleum refining facility which would transform unfinished petroleum oils into refined petroleum products, including a petrochemical feed stock which would be further upgraded in associated "satellite" plants in Puerto Rico into chemical commodities and ultimately into consumer products.

5. EDA, Coan, and all others concerned recognized from the outset that the economic feasibility of the project depended upon its operation with unfinished oils from Latin America as its raw material. Under Presidential Proclamation 3279 and Oil Import Regulation 1 of the U.S. Department of the Interior, such raw material could only be obtained for the proposed facility if an oil import quota were assigned to

it by the Oil Imports Administration of the Interior Department.

6. On December 14, 1961, one Mr. Sam Van Hyning, consultant to EDA, wrote to Mr. Coan advising him that he and one Mr. Rafael Durand, Administrator of EDA, had met with the Secretary of the Interior, the Hon. Stewart L. Udall, in Puerto Rico to discuss Puerto Rico's petrochemical matters and that Secretary Udall had expressed concrete interest in Puerto Rico's resource problems.

7. Omega Management, Inc. and Coan, during this period, made contact with Universal Oil Products Company (UOP) of Des Plaines, Illinois, to initiate an engineering and economic study of the Petroguimica Puertorriquena project. On September 12, 1961, UOP wrote to Mr. Coan to indicate that they were initiating their study. One of the factual assumptions set forth as being the basis for the study was that the raw material for the facility would be Venezualan crude oil.

8. At the request of Coan, one Mr. Bruce K. Brown, a director of Murphy Corporation of New Orleans, Louisianna, began to work with defendant the Hon. Mr. Chapman on the concept of a Puerto Rican refining venture operating on

imported crude. On January 29, 1961 Brown wrote to defendant the Hon. Mr. Chapman describing the financing of an existing Puerto Rican refining company, Commonwealth Oil and Refining Company. In February, 1962, Brown prepared several memoranda concerning the Puerto Rican refinery venture. One of these memoranda stated that a prerequisite for the success of the project would be the obtaining of an oil import quota for it. The other memorandum detailed a plan for payment to be made to various parties performing services in the promotion of the venture, including Omega Management, Inc., Brown himself and defendant the Hon. Mr. Chapman. According to this memorandum defendant the Hon. Mr. Chapman, as counsel, was to receive a retainer of $6,000 plus a base monthly retainer of $1,000 commencing on January 1, 1962. After operations commenced, defendant the Hon. Mr. Chapman was to be general counsel for the venture at an annual base retainer of $25,000. In addition, defendant the Hon. Mr. Chapman and Brown were to receive management stock options.

9. On February 23, 1962, Coan received a confidential letter from Van Hyning concerning the details of the next steps to be taken in the matter of site selection for the proposed facility. Substantial additional correspondence between Coan and EDA officials was conducted during this period concerning the said project.

10. On March 9, 1962 Dr. A.D. Fischbeck, Manager, Petrochemical Projects Development, International Department of defendant Phillips Petroleum Company wrote to Coan confirming that they were to meet during the week beginning March 11, 1962 to discuss the possibilities of defendant Phillips "supplying crude oil, participating in the refining and petrochemical complex, supplying management, providing technical assistance, participating in product sales and in any other category befitting [its] abilities".

11. On April 2, 1962 Fischbeck again wrote to Coan indicating that they had met on March 16, 1962 and had reviewed the data for the Puerto Rican project prepared by UOP and the proposed preliminary corporate structure plan for the venture. The letter conveyed Phillips' lack of interest in participating in the venture: "The advantages of participating in a refinery project as set forth in our meeting of March 16 are not readily apparent."

12. On May 18, 1962 Durand, Administrator of EDA, wrote to defendant the Hon. Mr. Chapman indicating that he had had extensive discussion and correspondence with Omega Management, Inc. concerning the proposed Puerto Rican refinery and indicating that Chapman would have Durand's, and therefore Puerto Rico's, full support in his efforts to obtain an oil import quota for the project.

13. Prior to September 1962, despite a considerable effort expended in its behalf by Coan, defendant the Hon. Mr. Chapman, and Brown, little progress toward successful launching of the Puerto Rican refining project was being made. In a letter to one Mr. James J. Wilson of San Juan, Puerto Rico, dated July 3, 1962, Coan indicated that the following problems remained to be solved before the project could be formally presented to the Department of the Interior for the assignment of an oil import quota:

1. a chemical manufacturer who would buy the petrochemical raw materials and utilize them in Puerto Rico would have to be found;
2. oil companies to provide the necessary raw materials and buy the non-petrochemical refined products therefrom would have to be found;
3. a financing plan for the venture would have to be perfected;
4. a complete and reliable management group would have to be assembled.

14. In September 1962 one Mr. Walter Gruber of E.M. Warburg and Company, 60 Broad Street, New York, N.Y., arranged for Coan to meet one Mr. Nathan M. Shippee, Chairman of the Board of plaintiff Prudential Oil Corporation for the purpose of enlisting plaintiff's efforts on behalf of the said Puerto Rican refinery project.

15. In a letter dated October 23, 1962 addressed to Gruber, Shippee indicated that inasmuch as he, one Mr. Edward J. Willey, who then was President of plaintiff, one Mr. William H. Wright and the Hon. Robert B. Anderson (Secretary of the Navy 1953-1954, Secretary of the Treasury 1957-1961) were the directors and sole shareholders in Heritage Corporation, a Connecticut Corporation, plaintiff would be in a position through his association with the Hon. Mr. Anderson to make contact with major petroleum and chemical companies to provide the raw materials and markets for the proposed venture, items which were prerequisite to its successful launching.

16. As a result of several additional meetings and discussions, the proposed Puerto Rican refinery venture and Joan's entire file of correspondence and reports pertaining thereto were turned over to plaintiff for organization and execution on behalf of the venturers.

17. Plaintiff then began intensive efforts to provide the necessary element for the project. On October 25, 1962, one Thomas Young, a consultant to plaintiff, contacted the R.M. Parsons Company, 26 Broadway, New York, N.Y., to arrange the services of this company as engineers for the project. On October 31, 1962 negotiations were initiated with a major

chemical company with a view to obtaining their participation in the venture as the operator of a satellite chemical company.

18. By a letter dated November 9, 1962 addressed to the Hon. Mr. Anderson, Shippee explained that of the four elements of the project to be completed before application for an oil import quota could be filed by defendant Chapman, who would serve as general counsel to the venture, one element in particular lay in the special province of the Hon. Mr. Anderson. This was to initiate contact with one or more major oil companies for "back-to-back contracts" for the venture, i.e. contracts to sell crude to the venture and buy back the same amount of refined products less any petrochemical products sold to chemical companies. On November 9, 1962 Shippee and Willey came to the Hon. Mr. Anderson's office in New York City to obtain his recommendation concerning a major oil company to fill this role. The Hon. Mr. Anderson recommended defendant Phillips Petroleum Company and immediately telephoned one Mr. K.S. Adams, Chairman of the Board of defendant Phillips, who indicated that defendant's written assent to joining in the venture would be sent to plaintiff forthwith.

19. Thereupon, defendant Phillips dispatched the following letter dated November 13, 1962 and addressed to plaintiff:

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Gentlemen:

In connection with Puerto Rico Oil and Petrochemical Company's complex to be built in Puerto Rico, Phillips Petroleum Company is prepared to:

1. furnish 30,000 to 60,000 barrels per day of crude oil for charge stock;
2. purchase the refined petroleum products not consumed in the petrochemical operation;
3. counsel with you and assist, if you wish, in the design and construction and operation of the proposed facilities.

Whenever you desire, we shall be glad to have our representative work with you to negotiate and complete contract.

Very truly yours,
/s/ Stanley Learned, President

20. In the furtherance of the proposed venture, the creation of a Puerto Rico Corporation by the name of Puerto Rico Oil and Petrochemical Company (PROPCO), with defendant Chapman as a director and general counsel and with Fischbeck as vice-president for operations, was then planned. On December 13, 1962, Mr. Peter L. Shea of Kuhn, Loeb and Company, Inc., 30 Wall Street, New York, submitted to plaintiff a financing plan for PROPCO.

21. Having obtained the commitments of defendant Phillips and defendant the Hon. Mr. Chapman to the said venture, plaintiff now undertook an intensive effort to obtain all of the necessary elements for the launching of the project. At the

end of November, 1962, Shippee and Young of plaintiff and Coan went to Puerto Rico to inspect available plant sites and to meet with Durand and with one Mr. Hernandez, the executive director of EDA. As a result of those meetings, an understanding was reached between plaintiff and the representatives of the Commonwealth of Puerto Rico to the effect that, provided that the Commonwealth obtained technical endorsement for the proposed project in an independent study, the Commonwealth would sponsor the project, would grant it exclusivity for its chemical industry, would grant it tax and other protection, would lease to it a site for its plant, and supply area development including all facilities except those used exclusively by the project. On December 27, 1962 Hernandez again met with Shippee in New York to review the project and to select the Arthur D. Little Company as the Commonwealth's independent consultant.

22. During this time plaintiff also continued its efforts by making contact with chemical manufacturers for the purpose of finding operators of potential petrochemical "satellite plants" to create a market for the petrochemical products of the refinery, by maintaining contact with officials of EDA concerning details of the Commonwealth's cooperation with the project, and by maintaining contact with defendant the Hon. Mr. Chapman concerning his efforts in obtaining an oil import quota for the project.

In regard to the last matter, on January 11, 1963 Shippee wrote to defendant the Hon. Mr. Chapman reporting on progress on the project and indicating that plaintiff was in the process of preparing an extensive detailed written project proposal to be used in making the application for the oil import quota.

23. On January 21, 1963 Coan communicated to Shippee the arrangement of a meeting to be held between defendant the Hon. Mr. Chapman and Durand and Hernandez of EDA regarding the project.

24. In a letter dated March 8, 1963 Shippee informed the Hon. Mr. Anderson that, in response to defendant the Hon. Mr. Chapman's questions as to how the equities in the project were to be distributed, he had told defendant the Hon. Mr. Chapman that this problem would be placed into the Hon. Mr. Anderson's hands.

25. On March 29, 1963 Shippee wrote to defendant the Hon. Mr. Chapman that Fischbeck of defendant Phillips had requested that plaintiff's project outline be left with defendant Phillips so that the latter may bring it up to date with current prices and for a final engineering and marketing review before placing it in defendant the Hon. Mr. Chapman's hands in early May for the latter's use in making the application for the oil import quota. Defendant the Hon. Mr. Chapman communicated his pleasure with the progress of this project to Shippee on April 11, 1963.

26. On April 29, 1963 Fischbeck wrote to Shippee stressing that defendant Phillips' interest in the project was dependent upon the establishment of an oil import quota.

27. On May 29, 1963 plaintiff forwarded three copies of its said extensive project outline "Request for Oil Import Allocation - Puerto Rico Oil and Petrochemical Company - San Juan, P.R. and New York, N.Y." to defendant the Hon. Mr. Chapman.

28. On July 2, 1963 defendant the Hon. Mr. Chapman, Coan, and Messrs. Young, Little and Shippee of plaintiff came to the Hon. Mr. Anderson's office to discuss the future strategy for the launching of the said project. After a private conference held between the Hon. Mr. Anderson and defendant the Hon. Mr. Chapman during the course of this meeting, the Hon. Mr. Anderson announced to the meeting that defendant the Hon. Mr. Chapman had agreed to undertake to "quarterback the project in Washington".

29. From this point until early 1964, during a number of conferences between representatives of the venture, Interior Department and EDA officials, it became apparent that the outlook for the granting of an oil import quota for the venture could be enhanced if the application were made in the name of a major integrated petroleum company, in whose reputation the strongest grounds could be found for confidence in the successful execution of the project.

30. On May 1, 1964, therefore, the application for the oil import quota was formally made in the name of Phillips Petroleum Company, with defendant the Hon. Mr. Chapman serving as counsel to the applicant Phillips.

31. Public hearings were held on July 31, 1964 at the Interior Department Auditorium in Washington, D.C. on this application. Speaking in favor of the application, Durand stated that the proposal "...is the result of three years of effort and negotiation in which our government sought to interest elements of the petroleum and chemical industries in Puerto Rico the core of a petrochemical effort." The only other party appearing at the hearing to speak for the application was defendant Phillips. Representatives of many other oil companies, including those already in operation in Puerto Rico, spoke in opposition to the application. Plaintiff did not speak at the hearing.

32. After the hearing, during the period provided by the Interior Department for the submission of additional statements and during the subsequent period when the Interior Department conducted a field investigation on the application, plaintiffs made no representations to the Interior Department or anyone else which could in any way be detrimental to this application, or to further the cause of any other application for an oil import quota for a Puerto Rican refinery.

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33. On January 13, 1965 Shippee and Willey of plaintiff met with Learned and Adams of defendant in the offices of the latter to discuss the progress of the venture. Upon Phillips' request that plaintiff make an effort to furnish a market for at least a portion of the anticipated petrochemical production, plaintiff advised defendant Phillips that it had a customer for 50,000,000 pounds per year of polyvinylchloride.

34. During the remainder of 1965, while the Interior Department was weighing the said application for the quota, personnel of plaintiff and of defendant Phillips continued to work together on various aspects of the project.

35. An oil import quota for 50,000 barrels per day of low boiling distillates for importation into Puerto Rico was granted to defendant Phillips effective January 1, 1966, pursuant to an agreement dated May 27, 1965 between defendant Phillips and the Commonwealth of Puerto Rico. Under this agreement a corporation named CORE would be formed which would own and operate the facility that would process the oil to be imported under the said quota. CORE, under the said contract, is to be owned seventy five percent (75%) by defendant Phillips and twenty five percent (25%) by the Puerto Rico Industrial Development Corporation (PRIDCO).

BEST COPY AVAILABLE

36. At the said Interior Department public hearing, Learned stated that each barrel of the low boiling stock which, under defendants' plan and under the subsequently granted quota, is to be imported is the equivalent in low boiling ingredients of three to four barrels of crude petroleum. Imported low boiling petroleum, because its price is lower than domestic low boiling petroleum, represents an economic advantage as compared to domestic crude of up to two dollars ($2.00) per barrel to one who can market gasoline in the United States. Thus over a fifty (50) year period, a reasonable expectancy for the life of the venture, the value of this import quota is one billion eight hundred and twenty-five million dollars ($1,825,000,000.00).

37. Since the award of the said import quota defendant Phillips has refused to acknowledge plaintiff's participating interest in the said venture.

38. Defendant Phillips has remunerated Coan and defendant the Hon. Mr. Chapman for their respective roles in the said venture.

39. Plaintiff took the salient role in the effort to establish the said venture; i.e., the Puerto Rican refinery facility, after defendant Phillips had indicated its lack of interest therein. As a result of plaintiff's having later

convinced defendant Phillips of the feasibility of the plan to obtain an oil import quota for the venture with the aid of the services of its counsel, defendant the Hon. Mr. Chapman, defendant Phillips then gave its commitment to plaintiff that it would assist in the design, construction and operation of the facility on behalf of the venture. Plaintiff performed innumerable services without which the project to which the import quota was assigned would not have come to fruition, including the furnishing to defendant the Hon. Mr. Chapman, counsel for the venture, of the extensive project proposal. Plaintiff also refrained from advocating to the Interior Department any course alternative to the granting of an import quota on defendant Phillips' application. Plaintiff has consistently performed as though it were, and defendant Phillips has consistently led plaintiff to believe that it is, a joint participant with defendant Phillips in a joint venture which is to perform the role for which defendant Phillips is designated under the said contract of May 27, 1965.

FOR A SECOND SEPARATE AND DISTINCT CAUSE OF ACTION AGAINST DEFENDANT PHILLIPS PETROLEUM COMPANY

40. Defendant the Hon. Mr. Chapman was acting in a fiduciary capacity on behalf of plaintiff in his efforts to obtain an oil import quota for the said Puerto Rican Refinery.

41. Defendant Phillips wrongfully pursuaded defendant the Hon. Mr. Chapman to exercise his efforts in obtaining the said oil import quota on behalf of defendant Phillips.

42. In so doing, defendant Phillips wrongfully deprived plaintiff of the benefits of the activities on plaintiff's behalf of plaintiff's fiduciary agent, defendant the Hon. Mr. Chapman.

WHEREFORE plantiff prays that this honorable court grant to plaintiff:

(a) a decree that defendant Phillips holds its shares in CORE (seventy five percent of the total shares therein) in constructive trust for the benefit of the said joint venture.

(b) an accounting between the joint venturers.

(c) by way of compensatory damages for the second cause of action, a judgment in the amount of nine hundred and twelve million five hundred thousand dollars ($912,500,000.00) against defendant Phillips.

(d) a judgment for plantiff's costs, disbursements and a reasonable attorney's fee.

(e) such other relief as this court may deem just and proper.

USA 26-475
(ED. 4-23-71)

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

1-744

FPI-M—8-24-78-50M-4417

Interrogatory 26: Attached are copies of two , one dated May 15, 1963 and the other dated May 16, rom Brown & Root to Mr. Shippee, copies of which have sly been marked, respectively as Plaintiff's Exhibit Defendant's Exhibit and as Plaintiff's Exhibit 110 Defendant's Exhibit 77 for identification and as Defendant's Exhibit for identification. With respect to these two letters, please

(a) when each of the following items was delivered to Brown & Root and to whom it was delivered:

(1) workbook of "Request for Oil Import Allocation";

(2) book entitled, "Puerto Rico Petrochemical Industries, Incorporated";

(3) a Ralph M. Parsons Company booklet entitled, "Preliminary Feasibility Study Petrochemical Plant";

(4) a volume described as "Final Report - an Investigation of On-Shore and Off-Shore Physical Features of Potential Port Sites, by Ta Liang, Consultant";

(b) with respect to the items referred to in 26(a), please indicate which of these have been marked for identification in this action and the exhibit number assigned to each;

(c) for the items enumerated in 26(a)(2), (3) and (4), please indicate by whom the document was prepared, when it was first obtained by Prudential Connecticut and from whom it was obtained by Prudential Connecticut;

Answers:

(b) (1) Plaintiff's Exhibit 214 Defendant's Exhibit 92 for identification

(2) Plaintiff's Exhibit 213 Defendant's Exhibit 94 for identification

(3) Plaintiff's Exhibit 211 Defendant's Exhibit 90 for identificatio

(4) Plaintiff's Exhibit 211 Defendant's Exhibit 91 for identification

(c) The documents were obtained by Prudential from Omega Management. However, the precise date thereof cannot be recalled, nor does plaintiff have information as to who prepared same other than what appears on the documents themselves.

D-344, Answer to Defendant's Interrogatory 26,
sworn to July 6, 1971

DX243

D-13

E 1847

MEMORANDUM

Summary Oscar Chapman Meeting, August 7, 1963

The matter of the Puerto Rican refinery — petrochemical complex — as discussed with Mr. Chapman and his associate, Michael J. Shea, is as follows:

1. Phillips will undertake immediately the study in a preliminary way the market and engineering feasibility of a petrochemical undertaking;

2. We will also undertake immediately a study of a refinery operation linked somehow to our European refining possibilities;

3. The above will be accomplished at the earliest possible moment after which we in New York will report to Bartlesville management with a recommendation regarding our further interest in developing a brochure-application for presentation to the Department of Interior. It was indicated to Mr. Chapman that our preliminary study would be completed possibly within 30 days.

MICHAEL J. SHEA
ATTORNEY AT LAW

CHAPMAN AND FRIEDMAN
WASHINGTON, D. C.

PENNSYLVANIA BUILDING
13TH STREET & PENNSYLVANIA AVENUE
TELEPHONE 393-3234

D-136, Memorandum, August 7, 1963

PLF
DEFT EX 289B FOR ID.
B. JACOBS 1/16 1923

D-110

1848

PROPOSAL

To: Mr. R. Durand
E D A
Puerto Rico

From: Mr. S. Learned
P P G

On: Sponsorship of a Petrochemical Complex Facility
in P R

CC-29

D-170, Proposal to Mr. R. Durand, (Handwritten)

Section II Value to Puerto Rico

E 1849

Consideration of the value of establishing a coal petrochemical industry in Puerto Rico must take into account both near-term and long-term effects. Certainly the initial ventures must and will contribute to the local economy. But even more important questions to answer include the following:

a. Is it stable? Will the benefits continue into the future or is the nature of the industry such that its benefits will be enjoyed for only a few years and then lost?

b. Is it technologically sound? Are the operations involved experimental and speculative or are they well established? Is the sponsor company capable of constructing, building, operating, and improving, the proposed facility?

c. Is it financially sound? Can the necessary capital be raised initially, and repaid as planned, without

exorbitant financial charges, refinancing, reorganization or liquidation?

d. Does it have growth potential? Are the products such that they can in turn attract or generate satellite industries, leading eventually to an integrated complex producing a variety of consumer products?

The answers to these questions are developed throughout the lecture. In each case the answers is an enthusiastic yes. Therefore the project may be expected ~~to attain certain objectives~~ to make a significant contribution to the economy of Puerto Rico which will gradually increase and multiply as the complex grows. This contribution will be basically in the form of employment, both direct and indirect. Several stages can be foreseen, approximately as follows:

a. Initial Construction. Creation of the initial facility, representing investment of about $45,000,000, is estimated to require a manpower staff averaging 600 to 900 men. The period of field construction will be about 15 months. In addition the construction operation will consume large quantities of concrete, structural steel,

tools, gasoline, lubricants, etc. As much of this materials as possible will be purchased in Puerto Rico, further contributing to the economy and increasing or securing employment.

b. Initial Operation. Operation of the initial facility will provide jobs for about 250 men. ~~The~~ ~~expected~~ reviewed location is in an economically depressed area of Puerto Rico. Therefore it is expected that this will result in the growth or development of a prosperous community. The resulting residential and commercial construction will generate additional employment. Further it will be necessary to staff the stores, schools and other community services required by these men and their families.

This multiplying factor may be illustrated another way. Direct operating costs of the initial facility are estimated at about $25,000 per day. Perhaps one-fourth to one-third of this will be used to purchase special chemicals, catalysts and replacement parts outside Puerto Rico. The rest will pay for either labor or supplies inside Puerto Rico. This is a very significant stimulus to the economy of a presently depressed area. Most of it would ultimately be reflected

in increased employment.

c. Second stage construction and operation. The second stage of this facility is expected to be a plant for the production of ammonia and urea. Construction of this $27,000,000 unit might begin in the second or third year after initial operation. Again a large construction staff will be required. Operation, perhaps four years after the first facility, will add about 150 men to the previous payroll. This again will generate additional commercial and community construction and employment. Direct operating costs of about $20,000 per day will further contribute to the local economy.

d. Further stages. Any attempt at this time to predict firmly the further development of the complex, representing as decisions six or more years in the future, would be foolhardy. However, the most likely additions appear to include one or more of the following: intermediates for the production of nylon (either type 6 or type 66), intermediates for polyester (terephthalic acid or dimethyl terephthalate and their derivatives), styrene and polystyrene, phthalic anhydride, and olefin production plus such olefin consumers as polyethylene

and synthetic rubber. Each of these in turn could attract ~~plastic~~ facilities producing consumer items including fibers, fabrics, plastic articles, or rubber goods. The first group of secondary ~~chemicals~~ intermediates would be capital-intensive industries, requiring major investment and construction, with benefits similar to the earlier stages. Building on this base, the consumer products group might be, broadly termed labor-intensive plants which could result in dramatic growth in employment. If carried to its ultimate stages, which would require many years, such a complex could employ 5000 to 10,000 men.

Section III - Summary of Proposed Operations

The flow sketch which follows indicates the major steps involved in the proposed initial use facility. Each of these steps is a well established operation, and the technology is familiar to Phillips Petroleum Company. The favorable balance of products shown is possible by the use of a selected hydrocarbon fraction as feedstock. Phillips Petroleum is in a position to make this feedstock available because of other existing and projected world wide operations.

At full capacity operation, charging 50,000 barrels per day of feedstock, the effected product volumes are summarized below. Also shown is the per cent of estimated 1966 free world market for each of the petrochemical intermediates.

Product	Volume	% 1966 World Market
Cyclohexane	33 Million Gal/Yr.	10
Benzene	30 " "	3
Ethyl Benzene	62 Million Lb/Yr.	2
Ortho Xylene	62 " "	9
Para Xylene	49 " "	5

Light Naphtha 8000 B/D

Motor Fuel 29,800 B/D

It is important to note a considerable degree of flexibility in the operations proposed. This will be a valuable tool for adjusting the production volumes to the changing world markets. Any or all of the chemical intermediates can be reduced by changing the isomerization and motor fuel production. The ratio of cyclohexane to benzene can be changed as the amount of each can be increased by changes in the operations.

The ~~cost~~ time required to develop markets for the products of such ~~an~~ a facility is influenced by many factors. However, ~~it is estimated that by~~ ~~proper~~ considerable development can be carried out during the period between approval of the project and initial operation. Design and construction will probably require about two years. By proper use of Phillips marketing abilities during this period it is estimated that it will be possible to operate the facility at 50 per cent of capacity as begins the first year. Higher operating rates are effected in subsequent years with full operation by the fourth

yes.

The second ~~plan~~ stage of operations planned (tentatively) is the production of urea. This will use about 2000 B/D of the naphtha produced for the manufacture of ~~two tons per day of~~ ammonia and subsequently 1000 tons per day of urea. This capacity represents about 7 per cent of the estimated 1966 free world demand. Again full capacity ~~will be reached~~ is expected to be reached after three or four years operation.

Subsequent stages of expansion can not be definite at this time. However, several potential stages of diversification can be visualized for the initial products. Each moves another step toward the consumer markets. Examples are:

Cyclohexane → Nylon salts → Nylon 66 → Fibre → Fabric

Cyclohexane → Caprolactam → Nylon 6 → Fibre → Fabric

Benzene → Phenol, Styrene, etc.

Ethyl Benzene → Styrene → Polystyrene → Plastic Products

Ortho Xylene → Phthalic Anhydride → Plasticizers

Para Xylene → Polyesters → Fibre → Fabric

Naphtha → Ethylene → Polyethylene → Plastic Products

Balance of Payments

		$ Outflow	$ Return	Net
Phase I	@ 50%	$ 17.4 mm	$ 7.4 mm	− $ 10.0 mm
	75	26.2	11.1	− 15.1
	90	31.4	13.3	− 18.1
	100	34.9	14.8	− 20.1
Phase II	@ 50%	0	6.3	
	75	0	9.4	
	90	0	11.3	
	100	0	12.6	

Yr.	1	2	3	4	5	6	7	8	9
Net − Bal	0	0	10.0	15.1	18.1	13.8	10.7	8.8	

E 1858

Comments on brochure by Sam Van Hyning

1. Direct brochure to Gerard!

2. Describe growth of project (emphasizing manpower & balance of payments) as follows

Phase 1 ... Construction

Phase 2 ... operation at 45,000,000 investment

Phase 3 ... operation at 100,000,000 investment

Phase 4 ... Growth to 300 to 500 million $ investment

3. Emphasize research & engineering strength of Phillips

4. Relate reference to experience on site for plastic

5. Relate Harbor survey section from report.

CC-39

D-205, Memorandum, Kron to Head, April 13, 1965

T. L. Cubbage
R. S. McConnell
C. W. Wolfe

CWW
DEK
CMK

D-205

PHILLIPS 66

INTER-OFFICE CORRESPONDENCE / SUBJECT:
BARTLESVILLE, OKLAHOMA

Marketing Summary
Puerto Rican Case VI
CMK-19-65

E 1859

April 13, 1965

Mr. A. J. Head
16 B4 PB

Phillips officials are negotiating with the Department of the Interior to effect the terms which will allow Phillips to build and operate profitably a petrochemical complex in Puerto Rico based on feedstocks imported from Venezuela. During the past month, the economics of making various combinations of products were determined in a series of case studies. In these studies, both optimistic and pessimistic outlooks were used in the choice of products, sales schedules, and prices. The most realistic case in this series is considered to be Case VI. The marketing research data relative to Case VI are summarized in the following discussion and attachments; special emphasis in this summary was placed on polyethylenes. The economic data are not covered in this review.

I. OUTLINE OF MARKETING PREMISES FOR CASE VI

A. Core Complex

1. Feedstock rate will build up gradually from 25,000 B/D the first year to 50,000 B/D the fourth year of operation.

2. Motor fuel output will not exceed 49.6 per cent of charge.

3. Chemical products will have real growth opportunities and/or will be consumed captively to yield satellite products with good growth expectations.

B. Satellite Units

1. Choice will be limited to the most likely candidates today.

2. Facilities will be installed as rapidly as required by a realistic sales forecast.

   a. Synthetic fibers to come on stream as soon as possible.

      (1) Nylon 66 in the first year of operation.

      (2) Polyester in the second year of operation.

   b. Ethylene complex to phase in after the expanded Sweeny ethylene plant is loaded (1970).

      (1) Naphtha cracker to produce 500 MM lb/yr ethylene.

      (2) Polyethylenes (HD and LD) to meet sales forecast beyond 1970.

      (3) Plastics fabrication up to 30 MM lb/yr.

   c. Styrene and related Marbon units to include acrylonitrile, styrene, polystyrene, and ABS resin.

K-151

The above premises differ from some previously used. Ethylene glycol and adipic acid were dropped from consideration in this "realistic" case because of pending negotiations with other companies. The styrene and related Marbon units were held in Case VI because of the many attractive features which favor a Puerto Rican location for this group of products. Phthalic anhydride has been dropped from recent considerations because of insufficient marketing data to support the unit at this time.

II. MARKETING DATA

Proposed sales and price schedules for the Puerto Rican complex are presented in Table I, attached, for the first ten years of operation. The prices given are plant netbacks and thus do not include loading, transportation, distribution, and sales expenses; however, such allowances were made in arriving at these netback prices. The proposed sales are compared to U. S. and world markets in Table II. Also, Table II gives the projected growth in consumption for the Case VI products. These data clearly point out the attractive growth prospects of the chosen products. The Phillips position in U. S. and world markets for products the Company already makes is presented in Table III. These data show that effecting the proposed sales schedule would put Phillips in a strong domestic position in benzene and LD polyethylene. The dominant domestic cyclohexane position would be maintained, whereas Phillips' world cyclohexane position might slip slightly.

III. PRODUCT BRIEFS

A. Core Complex

1. Paraffinic Naphtha.

The market outlook is favorable to move all Puerto Rican naphtha (up to 8,777 B/D in Case VI) into the export market at current pricing levels. Naphtha is now in tight supply in the Caribbean area with price firm at $2.10 a barrel. After the naphtha cracker is built in Puerto Rico, naphtha output will decrease to zero. In fact, loading the proposed 500 MM lb/yr ethylene plant would require more paraffinic naphtha than that available. To satisfy the feedstock needs of the cracker, the output of motor fuel will have to be decreased correspondingly (see Table I). Economics and marketing conditions might dictate that the naphtha cracker should be no larger than that required to consume the maximum volume of naphtha available.

2. Benzene.

Prospects for marketing the Puerto Rican benzene production appear good, even when new foreign capacity is considered. Additional foreign benzene production from naphtha-based ethylene plants and from new refineries is expected. However, the proposed Puerto Rican output is very modest in comparison with the huge forthcoming requirements. For example, compared to the planned 45 MM gallon output, about 450 MM gallons per year of benzene capacity will probably be added to meet world demands by 1971.

3. Cyclohexane.

A rapid build-up in world cyclohexane capacity and changes in technology are leading toward excess capacity in the western hemisphere. Thus the prospects for marketing Puerto Rican cyclohexane, even in world markets, are not bright unless some reduction is made in output of present Phillips

E 1861

3. Cyclohexane (Cont'd)

facilities. The Puerto Rican nylon fiber project will consume eventually about 27 MM gal/yr of cyclohexane. In the early years of the project, when nylon output is low, benzene output might be maximized for marketing purposes in order to minimize cyclohexane available for sale.

4. Ethyl Benzene.

Ethyl benzene sales would be limited to the first two years' operation. Later all ethyl benzene is consumed in the styrene plant. Puerto Rican ethyl benzene should find a ready market with existing styrene producers as long as benzene is in tight supply and styrene consumption grows.

5. Para-xylene.

The 50 MM lb/yr para-xylene output is expected to be readily marketable because of the 15-18 per cent annual growth rate expected for polyester fibers and the need for new supplies. In the latter years of the Puerto Rican operation, all available para-xylene is shown to be consumed in the captive fiber operation.

Satellite Products

1. Nylon Fiber.

Nylon production is shown to begin the first year of Puerto Rican operation in order to meet the program set up by Development Planning. The sales build-up proceeds rapidly during the 10-year period so that Phillips output eventually amounts to 8.7 per cent of the 1975 U. S. market, according to Marketing Research data.

2. Polyester Fiber.

Polyester plant start-up, although desired the first year, is delayed until the second year because of technology and construction problems. The sales schedule parallels the nylon project. Phillips planned 1975 output is projected to be 9.0 per cent of the market.

3. Butadiene.

The projected modest growth rate and small merchant market for butadiene will not support a new large butadiene plant. Thus, Puerto Rican output is limited to recovery of by-product material from the naphtha cracker. The small volume involved is considered marketable. The ABS resin unit would consume a small part of this butadiene.

4. Carbon Black Oil.

Industry sources are divergent on the future supply situation of carbon black feedstocks. It is expected that world demand will increase nearly 6 per cent annually. Indications are that the Puerto Rican carbon black oil could be moved into either captive outlets or the export market at plant netback price of $2.50 bbl. Early consideration should be given to building a PHILBLACK unit in Puerto Rico to supply some of our bagged carbon black market in the U. S. and the export field.

E 1862

5. HD and LD Polyethylenes.

The expected trends in the field of polyethylene resins are tremendous growth and decreasing share of the market in the merchant trade. On the average, the merchant market for polyethylenes is expected to decrease from approximately 65 to 40 per cent in the next 10 years. Phillips accordingly should be expected to follow this trend by steadily investing in more and more captive outlets for resins. The sales forecast for Phillips polyethylenes, merchant and captive, is given in Table IV. The table clearly shows the manifold increase in captive consumption predicted for Phillips.

Currently, Phillips has invested approximately $50 MM for captive outlets to consume about 60 MM lb/yr of resins. According to the sales schedule, the captive consumption by Phillips during the next 10 years will increase to approach 500 MM lb of polyethylenes. Based on an average investment cost of $.50 per annual pound of resin consumed, the fulfillment of such a program would necessitate the additional investment by Phillips of over $200 MM into new captive resin units.

The Company position in domestic polyethylene markets is presented in Table V. This shows that a light attrition in position is expected in HDPE, but through an ambitious program the Phillips position in LDPE will increase from 3.4 to 9.6 per cent of the LDPE market during the next ten years.

6. Plastic Fabricated Products.

Current consumption of polyethylene products is about 2 MM lb/yr in Puerto Rico. The island has a potential for the consumption of 30 MM lb/yr. The Case VI fabrication unit was sized accordingly, with 25-50 per cent export of products required to meet realistically the local consumption possibilities.

7. Styrene and Related Products.

Marbon management have expressed a real interest in pursuing the possibility of producing (or perhaps Phillips producing for them) styrene, polystyrene and acrylonitrile in Puerto Rico. Further discussions with Marbon people will take place in the near future to define premises. In connection with the Marbon-related products, Phillips people are interested in ABS resin manufacture with or without Marbon.

CONCLUSIONS AND RECOMMENDATIONS

All of the work done on the Puerto Rican project to date has been of such nature to make the complex basic enough to support Phillips' claims that the project will lead to the employment of a large labor force. With the large aromatics base in the core and the pending intentions by Phillips to install an olefin satellite unit plus two complete synthetic fiber lines, the employment potential of the complex should favorably influence Phillips' position in negotiations with the Department of the Interior. Many more products could be considered for production in Puerto Rico. When Phillips obtains approval to proceed with this project by the granting of a new oil import quota, it is recommended that a major commercial development effort be initiated to direct the product planning toward the opportunities that are allowed by a Puerto Rican location.

Carl M. Knox

TABLE I

PROPOSED PUERTO RICAN SALES SCHEDULE - CASE VI

Year of Operation	Desired for U.S. Mfg. Co's %	1	2	3	4	5	6	7	8	9	10	Netback Prices All Years	
Probable Calendar Year		1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	Price	Units
Feedstock Naphtha, B/D		25,000	37,500	45,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	2.410	$/B cvld
Product Naphtha, B/D	0	5,918	8,777	4,973	2,753	0	0	0	0	0	0	1.970	$/B
Benzene, MGPY	47	26	48	41	45	40	40	40	40	40	40	0.200	$/gal
Cyclohexane, MGPY	0	23	23	23	23	21	15	10	5	5	5	0.200	$/gal
Ethyl Benzene, MM lb/yr	100	43	65	0	0	0	0	0	0	0	0	0.038	$/lb
Para-xylene, MM lb/yr	50	25	40	50	50	50	12	0	0	0	0	0.068	$/lb
Nylon Fiber, MM lb/yr	75	10	20	30	40	60	80	100	120	120	120	(1)	
Polyester Fiber, MM lb/yr	87	0	10	20	30	40	60	80	100	120	120	(1)	
Butadiene, MST/yr	100	0	0	5.5	10.5	14.5	19.5	22.5	22.5	22.5	22.5	0.080	$/lb
Carbon Black Oil, B/D	0	0	0	230	370	480	610	690	690	690	690	2.500	$/B
HD Polyethylene Resin, MM lb/yr	90	0	0	35	75	120	165	195	195	195	195	(1)	
LD Polyethylene Resin, MM lb/yr	90	0	0	55	90	105	140	160	160	160	160	(1)	
Plastics Fabrication, MM lb/yr													
HDPE	37	0	0	5	10	10	10	15	15	15	15	0.375	$/lb
LDPE	37	0	0	10	10	15	15	15	15	15	15	(1)	
Acrylonitrile, MM lb/yr	100	0	0	56	67	75	75	75	75	75	75	0.120	$/lb
ABS Resin, MM lb/yr	90	0	0	15	18	20	20	20	20	20	20	(1)	
Polystyrene Resin, MM lb/yr	67	0	0	112	135	150	150	150	150	150	150	0.140	$/lb
Styrene, MM lb/yr	100	0	0	109	130	145	145	145	145	145	145	0.700	$/lb
Motor Fuel, B/D	100	12,400	18,600	22,300	24,800	24,748	21,600	19,730	19,730	19,730	19,730		
(1) Varying Netback Prices													
Nylon Fiber, $/lb		1.015	1.033	1.032	0.966	0.966	0.966	0.966	0.966	0.966	0.966		
Polyester Fiber, $/lb		0	0.703	0.735	0.735	0.745	0.719	0.711	0.716	0.656	0.656		
HD Polyethylene Resin, $/lb		0	0	0.15	0.14	0.14	0.14	0.14	0.14	0.14	0.14		
LD Polyethylene Resin, $/lb		0	0	0.14	0.13	0.13	0.13	0.13	0.13	0.13	0.13		
LDPE Products, $/lb		0	0	0.350	0.325	0.325	0.325	0.325	0.325	0.325	0.325		
Acrylonitrile, $/lb		0	0	0.120	0.110	0.110	0.110	0.110	0.110	0.110	0.110		
ABS Resin, $/lb		0	0	0.320	0.300	0.300	0.300	0.300	0.300	0.300	0.300		

E 18620
Attachment to
OPP-19-65

TABLE II

MARKETING RESEARCH DATA FOR PRODUCTS SOLD FROM PROPOSED PUERTO RICAN COMPLEX - CASE VI

	Proposed 1971 Plant Sales MM lb/yr	1965 Total U. S. Capacity MM lb/yr	Plant 1971 Sales as % of 1965 U.S. Capacity %	1965 Free World Capacity MM lb/yr	Plant 1971 Sales as % of 1965 World Capacity %	1971 U. S. Consumption MM lb/yr	Plant 1971 Sales as % of 1971 U. S. Consumption %	1971 World Consumption MM lb/yr	Plant 1971 Sales as % of 1971 World Consumption %	1968-1971 Annual Growth Rate % U.S.	1968-1971 Annual Growth Rate % World	1968-1971 Annual Growth Volume MM lb/yr U. S.	1968-1971 Annual Growth Volume MM lb/yr World
Benzene (1)	45	850	5.3	1,423	3.2	1,003	4.5	1,865	2.4	6.0	5.3	60	100
Cyclohexane (1)	23	315	7.3	452	5.1	187	12.3	612	3.8	6.2	7.9	22	48
Ethyl Benzene	65(4)	3,410	1.9	6,200	1.0	3,500	1.9	6,020	10.8	4.2	4.5	147	270
Para-xylene	50	610	8.2	1,110	4.5	855	5.8	1,915	2.6	18.8	16.5	160	315
Nylon Fiber	40	1,025	3.9	2,525	1.6	1,155	3.5	4,095	1.0	5.5	10.2	63	417
Polyester Fiber	30	405	7.4	1,032	2.9	840	3.5	2,035	1.5	18.5	15.8	155	321
Butadiene (2)	11	1,314	0.8	1,741	0.6	1,518	0.7	2,405	0.5	4.0	5.6	69	135
Carbon Black Oil (3)	368	32,800	1.1	58,300	0.6	33,100	1.1	70,100	0.5	4.2	5.9	1,390	4,130
HD Polyethylene	75	798	9.4	1,417	5.3	2,330	3.2	4,280	1.8	21.0	21.0	487	899
LD Polyethylene	90	1,950	4.6	4,026	2.2	2,740	3.3	8,950	10.1	4.9	11.0	137	984
Acrylonitrile	67	715	9.4	1,344	5.0	903	7.4	1,783	3.8	8.9	8.3	80	147
ABS Resin	18	250	7.2	426	4.2	440	4.1	750	2.4	19.2	15.3	84	114
Polystyrne	135	1,330	10.2	2,930	4.6	1,620	8.3	3,300	4.1	3.4	4.2	55	138
Styrene	130	2,975	4.4	5,405	2.4	3,050	4.3	5,250	2.5	4.2	4.5	128	236

(1) All supply-demand figures given as MM gal/yr.

(2) All supply-demand figures given as MST/yr.

(3) All supply-demand figures given as B/D.

(4) 1969 sales. After 1969, ethyl benzene is converted into styrene.

E 1862 b

Attachment 4
CMK-12-65

E 1862 B

Attachment to
CMK-19-65

E 1862c

TABLE III

COMPANY POSITION IN U. S. AND WORLD MARKETS

	Phillips' Chemical Plant Capacities(1) upon Completion of Projects		Phillips Current Domestic Output as % of 1965 U.S. Capacity	Phillips Current World Output as % of 1965 World Capacity	Phillips Domestic Output as % of 1971 U.S. Consumption	Phillips World Output as % of 1971 Wor. Consumption
	Domestic	World				
Benzene, MMgpy						
Continental U. S.	22	22				
Puerto Rico	48	48				
International	—	6				
Total	70	76	2.6	1.5	7.0	4.0
Butadiene, MST/yr						
Continental U. S.	112	112				
Puerto Rico	23	23				
International	—	36				
Total	135	171	8.5	6.4	8.9	7.1
Carbon Black, B/D						
Continental U. S.	3,750	3,750				
Puerto Rico	690	690				
International	—	580				
Total	4,440	5,020	11.4	6.4	13.4	7.2
Cyclohexane, MMgpy						
Continental U. S.	100	100				
Puerto Rico	23	23				
International	—	0				
Total	123	123	31.7	22.1	65.8	20.1
Polyethylene, MM lb/yr						
Continental U. S. (2)	280	280				
Puerto Rico	120	120				
International	—	0				
Total	400	400	16.7	9.4	17.2	9.3
Polyethylene, MM lb/yr						
Continental U. S. (3)	145	145				
Puerto Rico	140	140				
International	—	0				
Total	285	285	3.6	1.7	10.4	3.2

(1) Or maximum possible outside sales from Puerto Rico in Case VI in period 1968-1971.
(2) Houston plant expanded from 133 MM lb/yr capacity in 1965 to 280 by 1970 to load Sweeny ethylene plant.
(3) A-B plant expanded from 140 MM lb/yr capacity in 1965 to 290 by 1968 to load Sweeny ethylene plant.

PHILLIPS POLYETHYLENES SALES FORECAST

1965-1975

(In Millions of Pounds)

	High Density Polyethylene				Low Density Polyethylene				Total Polyethylenes			
	Merchant		Captive	Total	Merchant		Captive	Total	Merchant		Captive	Total
	Volume	%			Volume	%			Volume	%		
1965	90.4	85	15.6	106.0	32.6	43	43.6	76.2	123.0	68	59.2	182.2
1966	104.4	77	30.9	135.3	49.4	48	53.5	102.9	153.8	65	84.4	238.2
1967	120.5	70	50.7	171.2	65.2	49	67.5	132.7	185.7	61	118.2	303.9
196	125.7	62	77.1	202.8	77.4	49	81.2	158.6	203.1	56	158.3	361.4
196	139.9	58	100.6	240.5	82.7	46	96.5	179.2	222.6	53	197.1	419.7
1970	155.2	55	124.8	280.0	90.4	44	113.8	204.2	245.6	51	238.6	484.2
1971	169	52	156	325	103	44	132	235	272	50	288	560
1972	181	49	189	370	112	43	148	260	293	47	337	630
1973	193	46	227	420	125	43	165	290	318	45	392	710
1974	202	44	258	460	134	42	186	320	336	43	444	780
1975	212	42	293	505	147	42	203	350	359	42	496	855

TABLE V

COMPANY POSITION IN DOMESTIC POLYETHYLENE MARKETS

	HDPE		LDPE		Total PE	
	MM lb	% PPCo	MM lb	% PPCo	MM lb	% PPCo
1965	720	14.7	2,225	3.4	2,945	6.2
1966	905	15.0	2,370	4.3	3,275	7.3
1967	1,125	15.2	2,490	5.3	3,615	8.4
1968	1,375	14.7	2,640	6.0	4,015	9.0
1969	1,685	14.3	2,775	6.5	4,460	9.4
1970	2,050	13.7	2,905	7.0	4,955	9.8
1971	2,420	13.4	3,040	7.7	5,460	10.3
1972	2,810	13.2	3,180	8.2	5,990	10.5
1973	3,230	13.0	3,320	8.7	6,550	10.8
1974	3,680	12.5	3,470	9.2	7,150	10.9
1975	4,160	12.1	3,630	9.6	7,790	11.0

E 1862 d

Attachment to CMK-19-65

E 1862 B

DX-35, Letter, Blinken tc Chapman, May 31, 1963

Dr33 nd
4-17-70 JS

COPY

E 1863

May 31, 1963

Oscar L. Chapman, Esq.
Chapman and Friedman
Pennsylvania Building
Washington 4, D. C.

Dear Mr. Chapman:

I should like to confirm to you our telephone conversation of May 29, 1963, with respect to the report prepared by the Puerto Rico Oil and Petrochemical Company entitled "Request for Oil Import Allocation" of June 1963. As I informed you, neither Kuhn, Loeb & Co. nor ourselves were given an opportunity to review the report prior to its being sent to you in Washington. Upon receiving our copy on Wednesday, we immediately discovered certain statements which, in our judgment, should be materially altered to conform with the talks we held with PROPCO principals during the past year.

Kuhn, Loeb & Co. and E. M. Warburg & Co., Inc. cannot subscribe to the report as it now stands without having an opportunity to effect certain clarifications and corrections in particular regard to those portions relating to financial planning. When we submitted the first draft of a proposed financing plan to the Board of Directors of the Puerto Rico Oil and Petrochemical Company on December 13, 1962, we noted that "We believe this project to be a distinct advantage to the economy of Puerto Rico and we will be pleased to offer the banking and advisory services of our firm in its furtherance." As we introduced Messrs. Shippee, Little, Willey and Young to this project, we naturally feel responsible for its development in those areas where our competence has some bearing. Accordingly, we must have an opportunity to pass upon the financial merits of the proposal to be submitted to you and subsequently to public officials before we lend our names to the project as financial advisers and consultants.

With kindest regards, I am

Sincerely yours,

E. M. WARBURG & CO., INC.

DMB:ec

Donald M. Blinken
Vice President

E. M. WARBURG & CO., INC.

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PX-213, Letter, Shippe to Learned, December 13, 1965

PX 213

PRUDENTIAL OIL CORPORATION File E 186

ONE ROCKEFELLER PLAZA NEW YORK, N. Y. 10020

December 13, 1963

PLF
DEFT EX 213 FOR ID.
B. JACOBS 10/25 19 72

Mr. Stanley Learned, President
Phillips Petroleum Company
Bartlesville, Oklahoma 74004

Dear Mr. Learned:

It was good news to read of the final clearance for the import quota for the Core Plant in Puerto Rico.

We have had our subsidiary company, Prudential Polymer Co. (Puerto Rico), Inc. incorporated since November 11, 1964 in Puerto Rico, in anticipation of the construction of the Core Plant.

As you know, we have had several meetings with your representatives to identify a specific end-product to fit into your overall requirements. In our letter of August 30th to Mr. Waldby, we raised the possibility of supplying base chemicals such as chlorine and caustic soda.

We should now like to accept the offer of your letter of November 13, 1962, to have your assistance in the design, construction, and operation of a satellite plant compatible with the Core Plant.

Can you please designate a time and place convenient for your representative to meet with us to accomplish this, in mid-January?

Again, congratulations, and best wishes for a Happy New Year.

Kind regards,

N. M. Shippee
Chairman

prm
bc: Messrs. R. B. Anderson
E. J. Willey
W. H. Wright
T. R. Young

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D-326, Resume of Prudential Puerto Rico Project

Conformed Copy
of the Text of D 326

E 1865

RESUME OF

PRUDENTIAL/PUERTO RICO PROJECT

In 1961, Mr. Oscar Chapman approached Prudential Oil Corporation through Mr. Jack Coan. He had been having difficulty finding someone to finance the expense or the investigation of a proposed petrochemical feedstock plant in Puerto Rico.

After several conferences a group was formed, including Prudential, E.M. Warburg Co., and Chapman/Coan.

In 1962 and 1963 several visits were made to Puerto Rico by Prudential personnel and others, and a Program Study prepared for the Commonwealth. The principle was established with the Commonwealth that the core plant would act as a quasi-public utility in respect to supplying any chemical feedstock needed to support a chemical industry in Puerto Rico.

At this point, E.M. Warburg Co. refused to share in the expenses and were dropped from the group.

Prudential obtained the help of Mr. Robert B. Anderson, who introduced the project to Phillips Petroleum Company, whose President, Mr. Learned, supplied Prudential with a "back-to-back" letter agreement which was sufficient to

satisfy the requirements of the Commonwealth. (letter attached) Mr. Anderson also personally visited with the Puerto Rico Development people in New York to confirm that he would help in the venture.

Subsequently, several conferences were held with Phillips personnel, chiefly through Mr. Dale Fishbach, on marketing aspects of the project.

Mr. Chapman was then retained as Counsel for Phillips, and several conferences were held in Washington in his office, and in New York with Brown & Root.

Finally, at a conference in Mr. Anderson's office with Mr. Chapman and Mr. Coan present, it was represented by Mr. Chapman that he would expedite the project through official Washington if Phillips were the sponsor, since the size and scope of the project seemed beyond the capacity of Prudential.

It was agreed in Mr. Anderson's office that Mr. Chapman would "quarterback" the project from Washington, and that all interested parties, including Prudential, would cooperate with Mr. Chapman in the interest of achieving a common goal.

Since that time, Prudential and Mr. Anderson have lived within the substance and spirit of that meeting, and has continued to work with Mr. Chapman and Mr. Coan, and with personnel of Phillips in furtherance of the project.

Prudential has sought a participant's role in the Puerto Rican project in the area of a satellite plant and has sought the support of Phillips to this end. Such a proposal is under consideration by Phillips at this time.

N.M. Shippee
PRUDENTIAL OIL CORPORATION

PX-10, Teletype, February 20, 1963

P92

Re: Puerto Rico Crude - E 1868

RECD. FEB 25 1963

PX-10
For I.D.
2-9-72 W.S.

TELETYPE

FEBRUARY 20 1963

PAUL J PARKER
INTERNATL. DEPT.
713A FRANK PHILLIPS BLDG.
BARTLESVILLE, OKLAHOMA

RETEL COMMONWEALTH REFINERY-PETROCHEMICAL PUERTO RICO POSSIBILITIES WE WILL NOT HAVE SUFFICIENT PETROCHEMICAL PROJECT INFORMATION UNTIL NEXT WEEK. WE UNDERSTAND COMMONWEALTH NOW MAKING MONEY AND OTHER MAJORS ARE ATTEMPTING PURCHASE THROUGH PITCAIRN FAMILY. THIS SUGGESTS THAT THE EIGHT CURRENT CRUDE PROCESSING AGREEMENTS TOTALING APPROXIMATELY EIGHTY THOUSAND BARRELS DAILY ARE MORE PROFITABLE THAN DURING OUR PREVIOUS LOOK AT COMMONWEALTH.

WE STRONGLY RECOMMEND EITHER AT S&D OR TOP MANAGEMENT LEVEL A NEW LOOK AT COMMONWEALTH RELATIVE TO THE FOLLOWING POTENTIAL:

A PHILLIPS PART EQUITY POSITION PLUS DISTILLERS IN A FASHION THAT WOULD BOOST OUR CURRENT CRUDE PROCESSING AGREEMENT SUFFICIENTLY TO PROVIDE FEEDSTOCK FOR THE PETROCHEMICAL PROJECT AND EXPANDED PRODUCT REQUIREMENTS FOR OUR EAST COAST. THE PRESENT OUTSIDER PROCESSING CONTRACTS WOULD BE MAINTAINED UNTIL WE CAN SUPPLANT THEM WITH CAPTIVE DEMAND.

R E ELLIOTT

REE:rf

cc: A. D. Fischbeck
P. T. Pegg
R. G. Leonard
R. J. Hull

163

Excerpts from the Deposition
of Stanley L. Learned

project in Puerto Rico in February of 1963?

A I think I have already mentioned that we had discussions with Bruce Brown in the spring of 1963, but I don't know whether --

Q I think that was in 1962.

A Yes, 1962. No, in 1963, February of '63?

Q Yes.

A No, I don't think so.

MR. FARRELL: Would youmark a teletype dated February 20, 1963, from Mr. Elliot to Mr. Parker.

(Teletype marked Plaintiff's Exhibit 10 for identification.)

Q Mr. Learned, I show you a teletype that has been marked Exhibit 10 for identification, and ask you whether this refreshes your recollection whether Phillips had any interest in a Puerto Rican project in February, 1963?

A This teletype would indicate that on February 20 Mr. Elliot sent the teletype to Paul Parker requesting a reconsideration of the Commonwealth -- with the Commonwealth people.

Q Who were the Commonwealth people?

A I think it is Commonwealth. I don't know whether it is Commonwealth Oil Company but they have

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a refinery on the southwest corner of Puerto Rico. And this -- some time earlier than this the matter -- the question of the financial stability of Commonwealth had been brought to the attention of Phillips and there had been some look at that.

Q By a look at it, do you mean the possibility of a purchase of that refinery?

A Oh, it was a combination of not so much that as it was to attempt to help those people that were interested in it to operate the thing more profitably. Now, Dick Elliot may have conceived the idea of buying it. I don't know.

Q Do you know whether the discussions concerning this proposal continued beyond February 20, 1963?

A I have no recollection.

Q Was this proposal brought to your attention at or about the time of that teletype?

A I don't think so. I don't have any recollection of it.

Q Where did you hear about the proposal involving Commonwealth that you just told me about?

A You mean in the other, the previous one?

Q Yes.

A I heard about that in the Phillips offices.

Q When?

A I don't know exactly. It was when our executive offices were still in what is now called the Frank Phillips Building and it was on a Saturday morning, I remember that, because -- and it was at the request of people who had promoted the idea -- I should say who had been the investment bankers for the Commonwealth people when it was founded.

Q Did you know that Mr. Elliot was taking a further interestin the Commonwealth proposal in February, 1963?

A No, I don't think I did.

Q He did not speak to you before he made the survey that he refers to in the teletype?

A Does he refer to a survey there?

(Pause.)

MR. MAC CRATE: May I hear the question, please?

(Question read.)

MR. MAC CRATE: I would have to object to the form of that question.

MR. FARRELL: I will rephrase it.

Q Did he speak to you before he sought the information he refers to in the telegram?

A I have no recollection of him speaking to me at all about it.

Q And that answer is also true of the period subsequent to his receiving the information that he refers to in the telegram?

MR. MAC CRATE: Subsequent to receiving the information?

MR. FARRELL: Yes. He says he willhave information next week.

MR. MAC CRATE: I object to the form of the question. There is no indication he ever received any information in response to this communication.

Q Did he or anyone else tell you that he had received any information in February or March of 1963 concerning Commonwealth?

A Not that I am aware of.

Q Do you recall whether there was anything further done on the proposal involving Commonwealth after February 20, 1963?

A I have no recollection.

Q Do you recall whether, with respect to the Commonwealth proposal, you had any contact with the EDA or the Puerto Rican Government?

A I don't have any knowledge of it.

Q But it is possible that someone in Phillips might have?

A I don't know.

Q In March of 1963 do you know whether Phillips had any interest in involving itself in a Puerto Rican refinery project?

MR. MAC CRATE: I object to the form of the question. Could you make it more specific?

MR. FARRELL: Yes.

Q In March of 1963, did any Phillips employee, to your knowledge, or representatives become involved in a discussion with anyone outside of Phillips concerning a Puerto Rican refinery project?

A I just don't have enough knowledge to know whether that happened.

Q Well, was it reported to you that any employees of Phillips were having such discussions?

A I have no recollection at this time.

Q When was the first time after March of 1963 that the possibility of Phillips building a refinery, either by itself or in cooperation with others, in Puerto Rico brought to your attention?

A If I answered your question I would say I don't think it was ever brought to my attention.

Deposition of Oscar L. Chapman,
Answers to Questions 33 and 34

and the agency.

A I do remember receiving copies of a presentation referred to in Defendant's Exhibit 78. Mr. Shippee had written to Mr. Anderson and sent a copy of the letter to me referring to preparation of a presentation and later wrote to me referring to the drafting of a presentation. I was interested in seeing the presentation and so expressed myself. I did not submit the presentation to any governmental agency.

Q32 The reporter will show you a copy of a document annexed to these interrogatories and previously marked as Defendant's Exhibit 35 for identification, which is a copy of a letter dated May 31, 1963, on the letterhead of E. M. Warburg & Co., Inc., from Donald M. Blinken to yourself. Did you receive the original of this letter? If so, please produce and identify it and permit a copy thereof to be annexed to your answers to these interrogatories.

A Yes, I did receive the original of the letter. A copy thereof is annexed hereto.

Q33 Did the receipt by you of the letter referred to in Interrogatory 32 affect in any way your intention with respect to submitting to any governmental agency the "presentation" referred to in Defendant's Exhibit 78 for

identification and in Interrogatory 31. Please explain the reason for your answer.

A My view was that if a project providing substantial benefits for Puerto Rico and having good financial backing could be put together it had an opportunity to succeed. I did not wish to seek government approval of any project until it met these conditions and until satisfactory arrangements had been made for compensation of my firm. The letter from Mr. Blinken of E. M. Warburg made it quite obvious that a number of questions would have to be resolved before any submission could be made to the government.

Q34 The reporter will show you a copy of a document annexed to these interrogatories and previously marked as Defendant's Exhibit 36 for identification, which purports to be a copy of a letter from Nathan M. Shippee to yourself dated June 10, 1963. Did you receive the original of this letter? If so, please produce and identify it and permit a copy thereof to be annexed to your answers to these interrogatories.

A Yes, I did receive the original of this letter. A copy thereof is annexed hereto.

Q35 In the letter referred to in Interrogatory 34

Plaintiff's Memorandum in Opposition
to Motion to Amend the Judgment and for
a New Trial,March 18, 1976

E 1876

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PRUDENTIAL OIL CORPORATION, Plaintiff,	:	67 Civ. 3748 (CLB)
-against-	:	
PHILLIPS PETROLEUM COMPANY, Defendant.	:	

PLAINTIFF'S MEMORANDUM IN OPPOSITION TO MOTION TO AMEND THE JUDGMENT AND FOR A NEW TRIAL

GOLD, FARRELL & MARKS
595 MADISON AVENUE, NEW YORK, N.Y. 10022

E 1877

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PRUDENTIAL OIL CORPORATION, Plaintiff,	:	67 Civ. 3748 (CLB)
-against-	:	
PHILLIPS PETROLEUM COMPANY, Defendant.	:	

PLAINTIFF'S MEMORANDUM IN OPPOSITION TO MOTION TO AMEND THE JUDGMENT AND FOR A NEW TRIAL

The arguments which Phillips sets forth in support of its motion to amend the judgment and for a new trial have all been presented to the Court on Phillips' prior motion for judgment notwithstanding the verdict and, indeed, have been presented to both the Court and the jury at the trial. There is nothing which justifies Phillips' further dragging out of the proceedings in this Court before going on with its inevitable appeal. The motion should be denied forthwith so that the action can proceed to its eventual conclusion.

First, as this Court has already recognized in its decision denying Phillips' motion for judgment notwithstanding the verdict, there is no merit whatever in the claim that amending the complaint at trial to assert a claim based upon a contract implied in fact is barred by the statute of limitations. Rule 15(c) expressly provides that an amendment relates back to the date of the original pleading whenever the amendment arises out of the conduct, transaction or occurrence set forth in the original pleading. The complaint here gave Phillips full notice of the occurrence, transactions and conduct through which Prudential was aggrieved. This Court in its findings of fact and conclusions of law of March 2, 1976, at page 7, Finding III(I) expressly found that "the complaint did give notice of the transactions and occurrences to be proved for purposes of establishing a contract implied in fact."

No stone was left unturned by Phillips in seeking and obtaining evidence to dispute any liability to Prudential under any theory.* After the Court granted the motion to amend

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* The likelihood that evidence will become scarce over a period of time is, of course, the principal basis for the statute of limitation. Order of Railroad Telegraphers v. Railway Express Agency, Inc., 321 U.S. 342, 348-349, 64 S. Ct., 582, 586 (1944).

the complaint, Phillips offered into evidence all the documents which it deemed relevant to its case. Indeed, there were no documents even remotely bearing upon the relationship between Prudential and Phillips to which Phillips did not have access during its nearly nine years of discovery. In addition, Phillips called as witnesses those officers and employees of Phillips who had had dealings with Prudential, such as Fischbeck, Learned and Johnstone, and read from Chapman's deposition. It failed to call a number of witnesses on its list, such as Keeler and Conn, who had knowledge of the development of the Puerto Rican petrochemical project. To argue under these circumstances that Phillips was prejudiced by the amendment or that the jury was confused is rank hypocrisy.

Moreover, Phillips' argument is completely disposed of by the cases we have previously cited to the Court: Bethlehem Fabricators, Inc. v. British Overseas Air Corp., 434 F.2d 840 (2d Cir. 1970); Green v. Wolf Corp., 50 F.R.D. 220 (S.D.N.Y. 1970); Haad v. P. Ballantine & Sons, Inc., 38 F.R.D. 502 (S.D.N.Y. 1965). Those cases firmly establish that an amendment which adds an additional theory of recovery relates back to the original pleading even though the statute of limitations may have expired on that theory during the pendency of the action.

Second, there is absolutely no merit in the

contention that the claim of tortious misappropriation was barred by the statute of limitations. As previously noted, the complaint set out in full the history of the dealings between Prudential and Phillips, including precise dates. The second cause of action clearly set forth a claim of tortious misappropriation. At the time that the complaint was filed, Phillips knew more about the misappropriation than Prudential did. Phillips knew of the meeting between Conn and Chapman in August 1963 at which Chapman gave Conn the copy of Prudential's brochure. Phillips knew that Conn had immediately given the brochure to Waldby with instructions to prepare a written application for an import quota. Phillips knew that it had used some of the ideas in that brochure when it prepared its letter to Mr. Durand on December 16, 1963. Phillips knew that it had prepared a brochure which lifted verbatim sentences from Prudential's brochure. Yet, with all of that knowledge both of Prudential's claim and its own conduct, Phillips failed to plead the statute of limitations in its answer.

The statute of limitations is, of course, one of the most effective defenses known to the law. Moreover, because of its more or less arbitrary nature, it can lead to injustice by foreclosing a valid claim. The law accepts that injustice as the price of barring stale claims, but it does not let a defendant play with such a potent weapon. It requires that the defense be pleaded in a timely manner. If not, the

defense is waived.

This is precisely the case here. At no time before the trial was more than half over, even during the lengthy negotiations over the issues to be tried, did Phillips raise the claim of the statute of limitations. It did not even raise the claim on the eve of trial, although it required the Court to settle some of the issues by a motion and although it well knew that Waldby had received Prudential's brochure from Conn after Conn's meeting with Chapman in August 1963. It is thus clear that Phillips was not even inadvertent in its failure to plead the statute - - it made the decision to try its case on the theory that it did not use Prudential's ideas and that Learned had told Anderson in November of 1963 that Phillips would go its separate way. Since the jury rejected those contentions, it now wants a second bite at the cherry by asserting the statute of limitations not only after the pleadings are closed and the voluminous pretrial order settled, but after the trial.

The law is well established that the statute of limitations is waived under such circumstances. Under Rule 8(c) the statute of limitations is a defense which must be set forth affirmatively in the answer. The courts have consistently adhered to that rule by holding that a failure to plead the statute bars its assertion at a later time. See Zenith Radio Corp. v. Hazeltine Research, Inc., 401 U.S. 321,

332-33, 911 S.Ct. 795, 803 (1971), reh. denied 401 U.S. 1015, 91 S.Ct. 1247 (1971); Strauss v. Douglas Aircraft Co., 404 F.2d 1152, 1155 (2d Cir. 1968); Badway v. United States, 367 F.2d 22, 24-25 (1st Cir. 1966); Roseman v. Hassler, 382 F.Supp. 1328, 1341 (W.D.Pa. 1974), aff'd 520 F.2d 1364 (3d Cir. 1975). The Strauss and Roseman cases are particularly applicable here. In the former case, the Court of Appeals for this Circuit reversed a judgment in favor of a defendant which had been allowed by the District Court to amend its pleading and assert the statute of limitations nearly two years before the trial. In the latter case, the court made special mention of the fact that the defense was not raised until after the pretrial order.

Fourth, the argument that the verdict was excessive is simply another rehash of arguments previously submitted to the Court and jury. More important, the verdict was not excessive and, in light of Phillips' exposure, was modest. It is well established that a factor to be considered in determining dam s flowing from misappropriation of trade secrets is the benefit, profit or advantage gained by the defendant in the use of this information. See, e.g., Telex Corp. v. International Business Machines Corp., 510 F.2d 894, 930-31 (10th Cir. 1975), reh. den.; University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 536 (5th Cir. 1974), reh. den.; Clark v. Bunker, 453 F.2d 1006, 1010-11 (9th Cir. 1972); Sperry Rand Corp. v. A-T-O, Inc., 447 F.2d 1387, 1392-93 (4th Cir. 1971), cert. den., 405 U.S. 1017, 92 S.Ct. 1292

(1972); International Industries, Inc. v. Warren Petroleum Corp., 243 F.2d 696, 699 (3d Cir. 1957), reh. den.; Michel Cosmetics, Inc. v. Tsirkas, 282 N.Y. 195, 199, 26 N.E.2d 16, 17 (1940); Lawrence of London, Ltd. v. Count Romi, Ltd., 30 A.D.2d 518, 290 N.Y.S.2d 125 (1st Dep't 1968).

There was evidence in the record that Phillips itself projected that the profits of the Core facility from the inception of operations through 1979 will be as high as $168,000,000 (Tr. 1648-50). There is also testimony that Prudential's contribution to the establishment of the Core facility was between $13,500,000 and $14,600,000 (Tr. 1149, 1151). The jury was entitled to consider that evidence along with the evidence which Phillips emphasized, such as the payments made to Chapman and Coan. The jury apparently decided to accept Shippee's own estimate of the claim in the deposition he gave in the suit against Mohawk Airlines. This cannot be considered excessive. It is less than one percent of Phillips' profits and less than one tenth of the value of Prudential's contribution estimated by one of Prudential's expert witnesses.

Since the jury was properly instructed that if if found for plaintiff on more than one theory, and the amount of damages differed, it should award the higher damages, the foregoing disposes of Phillips' contention that the verdict was excessive. However, the verdict was also proper under a

theory of contract implied in fact. The jury could properly find that the contributions made by Chapman and Coan to the project were in no way comparable to the contribution made by Prudential. Chapman, Coan and Brown had worked on the project for months before Prudential became involved and had gotten nowhere. Prudential's ideas enabled the project to be resurrected. Chapman tacitly admitted that by giving Conn Prudential's brochure and Phillips admitted it by using the brochure as a basis for its own application. The jury could thus find that the ideas which Prudential brought to the project were substantially more valuable than any work done by Chapman and Coan because without those ideas there would have been no project and nothing for Chapman and Coan to work on.

Fifth, Phillips' argument that the interest on the judgment was incorrectly computed is contrary to the applicable statute and decided cases. CPLR §5001(b) states that interest shall be computed from the earliest ascertainable date the cause of action existed except that interest upon damages incurred thereafter shall be computed from the date incurred. This section has expressly been held to apply to cases of unfair competition [DeLong Corp. v. Morrison-Knudson Co., 20 A.D.2d 104, 244 N.Y.S.2d 859 (1st Dep't 1963), aff'd 14 N.Y.2d 346, 251 N.Y.S.2d 657 (1964)],

breach of contract [Julien J. Studley, Inc. v. Gulf Oil Corp., 425 F.2d 947 (2d Cir. 1969)]; Earnest v. Donald Deskey Associates, Inc., 312 F.Supp. 1312 (S.D.N.Y. 1970)], and quantum meruit [Spanos v. Skouras Theatres Corp., 235 F.Supp. 1 (S.D.N.Y. 1964), cert. den. 385 U.S. 987, 87 S.Ct. 597 (1966)].

The jury specifically found that Phillips misappropriated Prudential's ideas and took them pursuant to a contract implied in fact on December 16, 1963 (Tr. 2316). This is the appropriate date from which to compute interest under §5001(b) because it is the date on which the cause of action accrued. See, e.g., Greater N.Y. Coal & Oil Corp. v. Philadelphia & Reading Coal & Iron Co., 278 N.Y. 270, 15 N.E.2d 801 (1938); Brown v. Gadefroy Mfg. Co., 278 App.Div. 242, 104 N.Y.S.2d 444 (1st Dep't 1951); Hart v. United Artists Corp., 252 App.Div. 133, 298 N.Y.Supp. 1 (1st Dep't 1937); United States v. Walsh, 240 F.Supp. 1019 (N.D.N.Y. 1965).

Having been found to have invaded Prudential's rights by unilaterally misappropriating Prudential's ideas, Phillips now attempts to create a hypothetical arrangement which Prudential and Phillips might have made had Phillips acted in good faith. Thus, Phillips argues, Prudential would not have been paid until the core facility returned a profit.

This, however, is pure speculation. Having taken Prudential's ideas, Phillips is not now entitled to say it could have made a better deal if it knew it was going to be forced to pay. The cases which Phillips cites in support of its position are not applicable here. In those cases, the plaintiff made continuing expenditures after the original breach as in Gelco Builders & Burjay Const. Corp. v. Simpson Factors Corp., 60 Misc.2d 492, 301 N.Y.S.2d 728 (Sup.Ct., N.Y.Co. 1969); plaintiff's cause of action had not yet accrued until defendant breached its agreement to pay a second commission installment, as in Rachlin & Co. v. Tra Mar, Inc., 33 A.D. 2d 370, 308 N.Y.S.2d 153 (1st Dep't 1970); or there was an express employment contract providing for periodic payment running beyond the date of the action, as in Hollwedel v. Duffy-Mott Co., 263 N.Y. 95, 188 N.E. 266 (1933).

In the instant case, there was a deliberate invasion of Prudential's rights on December 16, 1963. There is nothing mysterious about the date - - it is readily ascertainable as the date on which Mr. Learned wrote to Mr. Durand and incorporated some of Prudential's ideas in Phillips' proposal to establish a petrochemical facility in Puerto Rico. That was the date upon which the cause of action accrued and the date upon which Prudential was damaged. One of the purposes for the submission of a special interrogatory

to the jury is to fix the date from which interest on the damage award shall be computed. Speculation upon what and when Prudential might have been paid had Phillips chosen to honor its obligations before being cast in judgment does not establish that Prudential's damage arose after that date. Having completely breached its duties to Prudential, Phillips cannot now hypothesize that its payment to Prudential may not have taken place until a later date. Moreover, under the contract theory accepted by the jury, Prudential's ideas and services were rendered to and utilized by Phillips as of December 16, 1963, and Prudential was entitled to be paid on that date. This Court in its findings of fact and conclusions of law of March 2, 1976, expressly refused to find, as defendant contended, that "there is no basis in the record for a finding that defendant Phillips breached a contractual obligation to pay any amount to plaintiff on December 13, 1963 nor did the jury so find." (Finding III (J), page 8). Again, defendant raises the same matters that have already been determined by the district court.

Finally, it is, of course, true that the amount of Prudential's damages were not established until the jury's verdict. It is well recognized, however, that the fact that damages are unliquidated until the verdict is not a ground

for depriving a plaintiff interest from the date of the breach. See, Funkhouser v. J.B. Preston Co., 290 U.S. 163, 54 Sup.Ct. 134 (1933); Flamm v. Noble, 296 N.Y. 262, 72 N.E.2d 886 (1947); Rock Transport Properties Corp. v. Hartford Fire Ins. Co., 312 F.Supp. 341 (S.D.N.Y. 1970), aff'd 433 F.2d 152 (2d Cir. 1970); see also Collier v. Granger, 258 F.Supp. 717 (S.D.N.Y. 1966).

Conclusion

This motion constitutes the second and in some cases, the third time that Phillips has raised the same arguments, which have been rejected previously. The proper administration of justice requires that Phillips not be permitted to make repetitive piecemeal motions in the hope of delay and wearing down either the Court or its adversary merely because it is willing to spend money on its defense. It is quite clear that Phillips will appeal the outstanding judgment. In view of this, the Court should deny the motion forthwith so that Phillips can address its rejected arguments to the Court of Appeals.

March 18, 1976

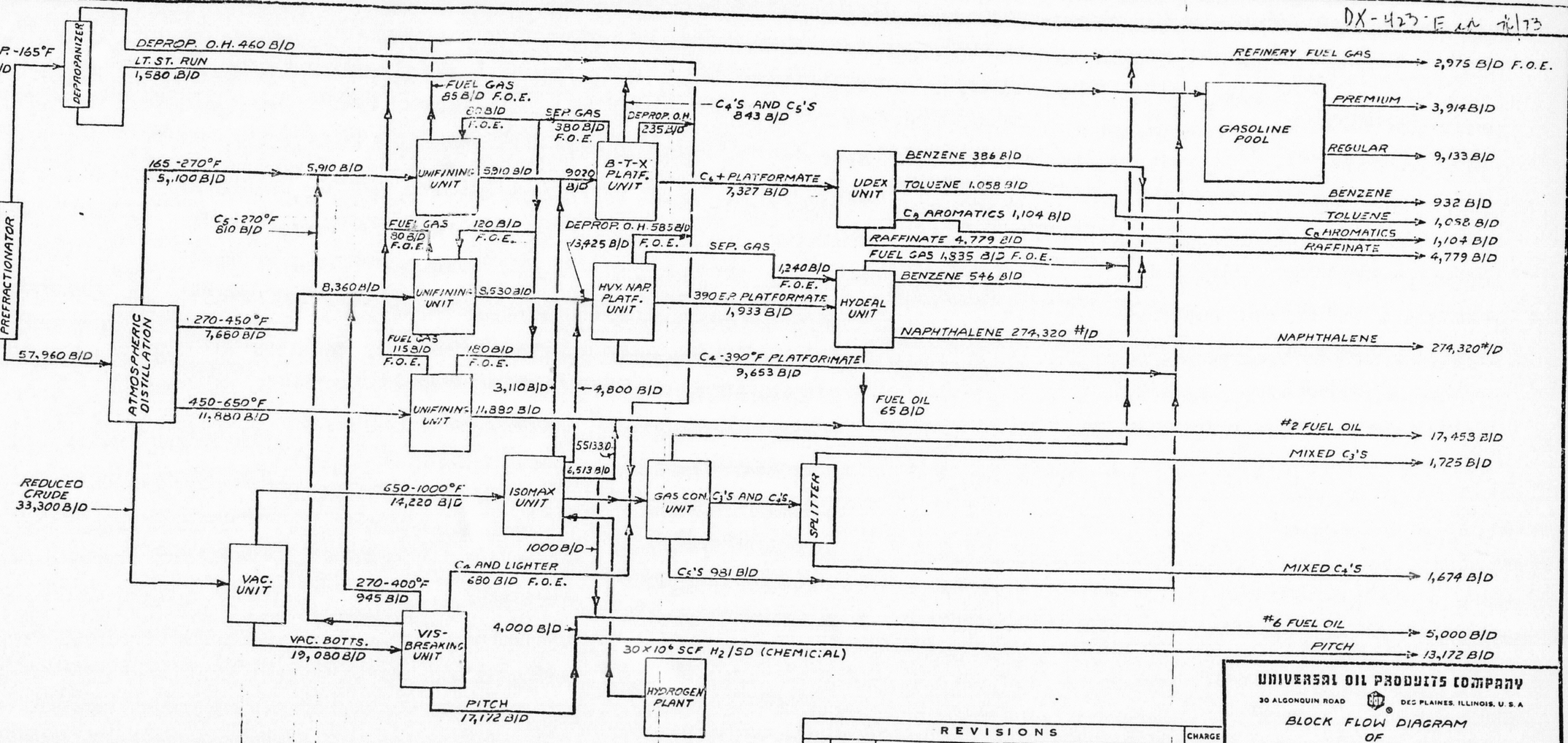
Respectfully submitted,

GOLD, FARRELL & MARKS
Attorneys for Plaintiff

Thomas R. Farrell
Leonard M. Marks

Of Counsel

DX-423-E 4/73



REVISIONS						CHARGE
NO.	DATE	DESCRIPTION	BY	CH'D	APP'D	0720

UNIVERSAL OIL PRODUCTS COMPANY
30 ALGONQUIN ROAD — DES PLAINES, ILLINOIS, U.S.A.

BLOCK FLOW DIAGRAM
OF
PROPOSED PUERTO RICO REFINERY
(ISOMAX CASE)

DR. R.R.M. CK. J.E. DWG. NO. REV.
APPR. R.W. DATE 4-17-62 76845-C-0

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PHILLIPS PUERTO RICO CORE INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 1967

Note 1: Semi-annual prepayments of $1,826,000 are required to be made commencing June 15, 1975 on the Company's 6-1/4% Sinking Fund Notes due 1986 (guaranteed by parent, Phillips Petroleum Company).

Proceeds from the sale of notes and from sales of the Company's stock have been utilized to construct a petrochemical plant near Guayama, Puerto Rico. The facilities were substantially complete at December 31, 1967 and the first phase of manufacturing operations began late in January, 1968.

During 1967, common stock increased $3,750,000 resulting from the issuance of 1,500 shares. In January, 1968, an additional 2,680 shares were issued for $6,700,000.

Note 2: The Company has been granted an exemption from certain Puerto Rico taxes including income taxes for a period of 12 years and has elected to defer commencement of the exemption for a period not to exceed two years from a date to be designated as the date of commencement of operations. Accumulated losses will be available to offset income which may otherwise be taxable prior to commencement of the exemption.

ARTHUR YOUNG & COMPANY

1500 FIRST NATIONAL BUILDING
TULSA

The Board of Directors and Stockholders,
Phillips Puerto Rico Core Inc.:

We have examined the accompanying balance sheet of Phillips Puerto Rico Core Inc. at December 31, 1967 and the related statement of income (loss) and deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Phillips Puerto Rico Core Inc. at December 31, 1967 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Arthur Young & Company

February 15, 1968

Phillips Puerto Rico Core Inc.

Annual Report

1967

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PHILLIPS PUERTO RICO CORE INC.

BALANCE SHEET

December 31, 1967 and 1966

ASSETS

	1967	1966
Current assets:		
Cash	$ 1,100,300	$ 2,898,751
Accounts receivable:		
Employees	10,299	7,638
Affiliates	18,444	1,446
Other	6,195	10,137
	34,938	19,221
Reimbursable construction costs	6,933,430	1,414,645
Inventories, at average cost, not in excess of market:		
Petroleum products	1,519,570	-
Materials and supplies	103,897	-
	1,623,467	-
Prepaid rent	6,987	13,083
Total current assets	9,699,122	4,345,700
Property, plant and equipment, at cost:		
Construction work in progress	61,286,654	20,150,012
Catalyst stock	896,829	1,352,000
Office furniture and equipment	124,220	72,567
Automotive equipment	26,009	1,725
Plant equipment	53,500	-
	62,387,212	21,576,304
Less accumulated depreciation	8,155	1,661
	62,379,057	21,574,643
Deferred charges and other assets:		
Unamortized debt expense	116,710	120,788
Deposits and other	7,395	1,350
	124,105	122,138
	$72,202,284	$26,042,481

LIABILITIES AND STOCKHOLDERS' EQUITY

	1967	1966
Current liabilities:		
Accounts payable, trade	$ 3,816,314	$ 1,345,573
Accounts payable, parent	10,773,228	101,959
Accrued taxes	19,915	3,116
Accrued interest	114,583	27,344
Total current liabilities	14,724,040	1,477,992
6-1/4% Sinking Fund Notes due 1986 (Note 1)	44,000,000	10,500,000
Stockholders' equity:		
Common stock, $2,500 par value: Authorized - 10,800 shares (10,000 shares in 1966) Outstanding - 7,420 shares (Note 1)	18,550,000	14,800,000
Deficit	(5,071,756)	(735,511)
	13,478,244	14,064,489
	$72,202,284	$26,042,481

See accompanying notes.

PHILLIPS PUERTO RICO CORE INC.

STATEMENT OF INCOME (LOSS) AND DEFICIT

Year ended December 31, 1967 and period January 14, 1966 to December 31, 1966

	1967	1966
Interest earned	$ 121,423	$ -
Expenses:		
Pre start-up manufacturing expenses	1,516,698	-
General and administrative expenses	1,033,228	685,302
Taxes, other than income taxes	45,593	9,578
Depreciation	6,539	1,661
Interest and debt expense	1,855,610	38,970
	4,457,668	735,511
Net loss	(4,336,245)	(735,511)
Deficit, beginning of period	(735,511)	-
Deficit, end of year	$(5,071,756)	$(735,511)

See accompanying notes.

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PHILLIPS PUERTO RICO CORE INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 1968

Note 1: Semi-annual prepayments of $1,826,000 are required commencing June 15, 1975 on the Company's 6-1/4% Sinking Fund Notes due 1986 (guaranteed by parent, Phillips Petroleum Company).

Note 2: During 1968, common stock increased $8,450,000 resulting from the issuance of 3,380 shares for cash.

Note 3: The Company has been granted exemption from certain Puerto Rico taxes including income taxes for a period of 12 years and has elected to defer commencement of the exemption for a period not to exceed two years from a 1968 date to be designated as the date of commencement of operations. Accumulated losses will be available to offset income which may otherwise be taxable prior to commencement of exemption.

Note 4: Under terms of an agreement with The Puerto Rico Ports Authority, the Company has guaranteed minimum annual wharfage fees of $677,078 for a period of 20 years from March 1968, the month harbor facilities near the Company's plant in Guayama, Puerto Rico became available for use.

ARTHUR YOUNG & COMPANY

1500 FIRST NATIONAL BUILDING
TULSA

The Board of Directors and Stockholders,
Phillips Puerto Rico Core Inc.:

We have examined the accompanying balance sheet of Phillips Puerto Rico Core Inc. at December 31, 1968 and the related statement of income (loss) and deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances..

In our opinion, the statements mentioned above present fairly the financial position of Phillips Puerto Rico Core Inc. at December 31, 1968 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

March 14, 1969

Phillips Puerto Rico Core Inc.

Annual Report

1968

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PHILLIPS PUERTO RICO CORE INC.

BALANCE SHEET

December 31, 1968 and 1967

ASSETS	1968	1967
Current assets:		
Cash	$ 2,511,919	$ 1,100,300
Accounts receivable:		
Trade and other	1,082,523	16,494
Affiliates	1,943,793	18,444
	3,026,316	34,938
Reimbursable construction costs	-	6,933,430
Inventories:		
Petroleum products, at cost (last-in, first-out), lower than market	4,240,220	1,519,570
Materials and supplies, at average cost	1,365,458	103,897
	5,605,678	1,623,467
Prepaid expenses	728,918	6,987
Total current assets	11,872,831	9,699,122
Property, plant and equipment, at cost:		
Manufacturing plant and equipment	69,623,396	53,500
Automotive equipment	50,061	26,009
Office furniture and equipment	143,943	124,220
Construction work in progress	1,740,943	62,183,483
	71,558,343	62,387,212
Less accumulated depreciation	3,044,978	8,155
	68,513,365	62,379,057
Deferred charges and other assets:		
Unamortized debt expense	108,079	116,710
Deposits and other	10,945	7,395
	119,024	124,105
	$80,505,220	$72,202,284

LIABILITIES AND STOCKHOLDERS' EQUITY	1968	1967
Current liabilities:		
Notes payable to banks	$11,000,000	$ -
Accounts payable	5,021,987	3,816,314
Due to parent	-	10,773,228
Accrued taxes	50,358	19,915
Accrued interest	134,930	114,583
Total current liabilities	16,207,275	14,724,040
Long-term debt due after one year:		
6-1/4% Sinking Fund Notes due 1986 (Note 1)	44,000,000	44,000,000
Purchase obligations	225,150	-
	44,225,150	44,000,000
Stockholders' equity:		
Common stock, $2,500 par value: Authorized and outstanding - 10,800 shares (Note 2)	27,000,000	18,550,000
Deficit	(6,927,205)	(5,071,756)
	20,072,795	13,478,244
	$80,505,220	$72,202,284

See accompanying notes.

PHILLIPS PUERTO RICO CORE INC.

STATEMENT OF INCOME (LOSS) AND DEFICIT

Years ended December 31, 1968 and 1967

	1968	1967
Revenues:		
Net sales ($18,781,433 to affiliates)	$44,852,279	$ -
Interest earned	-	121,423
	44,852,279	121,423
Costs and expenses:		
Cost of sales and operating expenses	37,977,686	1,516,698
Selling, general and administrative expenses	2,094,942	1,033,228
Taxes, other than income taxes	90,691	45,593
Depreciation (straight-line)	3,036,823	6,539
Interest ($472,179 to affiliates) and debt expense	3,507,586	1,855,610
	46,707,728	4,457,668
Net loss	(1,855,449)	(4,336,245)
Deficit, beginning of year	(5,071,756)	(735,511)
Deficit, end of year	$(6,927,205)	$(5,071,756)

See accompanying notes.

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PHILLIPS PUERTO RICO CORE INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 1969

Note 1: Semi-annual prepayments of $1,826,000 are required commencing June 15, 1975 on the Company's 6-1/4% Sinking Fund Notes due 1986 (guaranteed by parent, Phillips Petroleum Company).

Note 2: The Company has been granted exemption from certain Puerto Rico taxes including income taxes for a period of twelve years commencing December 31, 1969. Operating losses of prior years, approximately $5,324,000, will be utilized to apply against taxable income of the current year. To the extent that taxable income is not offset by prior years' losses the Company has elected to provide additional "flexible" depreciation on certain selected assets as permitted by the Puerto Rico income tax law. This will effect the elimination of Puerto Rico income tax which would otherwise be currently due at an effective rate of approximately 36%. Further, under Section 931 of the U. S. Internal Revenue Code, the Company's operations are exempt from U. S. federal income tax.

Provision for deferred income taxes applicable to the excess of depreciation to be claimed for tax purposes over depreciation provided on the books has not been made since an offsetting excess of book depreciation over tax basis depreciation will occur during the exemption period.

Note 3: Under terms of an agreement, as amended, with the Puerto Rico Ports Authority, covering marine facilities near Guayama, Puerto Rico, the Company has guaranteed minimum annual wharfage and dockage fees of $690,518 through November 30, 1987.

Note 4: The Company, its stockholders and others are defendants in litigation involving claims of $30,000,000. No provision has been made therefor since management and counsel for the Company are of the opinion the litigation is without merit and will not result in liability to the Company.

Note 5: Effective October 1, 1969 the Company established a non-contributory pension plan covering substantially all of its employees. It is not the Company's intention to fund the plan and pending finalization of actuarial cost studies, no provision has been made with respect to past or current service costs, neither of which amounts would be material.

ARTHUR YOUNG & COMPANY

G. P. O. BOX 4528
SAN JUAN, PUERTO RICO 00936

The Board of Directors and Stockholders,
Phillips Puerto Rico Core Inc.:

We have examined the accompanying balance sheet of Phillips Puerto Rico Core Inc. at December 31, 1969 and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Phillips Puerto Rico Core Inc. at December 31, 1969 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

February 13, 1970

Phillips Puerto Rico Core Inc.

Annual Report

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PHILLIPS PUERTO RICO CORE INC.

BALANCE SHEET

December 31, 1969 and 1968

ASSETS

	1969	1968
Current assets:		
Cash	$ 1,553,366	$ 2,511,919
Accounts receivable:		
Trade and other	3,677,865	1,082,523
Affiliates	3,295,089	1,943,793
	6,972,954	3,026,316
Inventories:		
Petroleum products, at cost (last-in, first-out), lower than market	7,115,500	4,240,220
Materials and supplies, at average cost	1,559,795	1,365,458
	8,675,295	5,605,678
Prepaid expenses	688,560	728,918
Total current assets	17,890,175	11,872,831
Property, plant and equipment, at cost:		
Manufacturing plant and equipment	71,230,979	69,623,396
Automotive equipment	101,357	50,061
Office furniture and equipment	150,115	143,943
Construction work in progress	1,321,126	1,740,943
	72,803,577	71,558,343
Less accumulated depreciation	7,262,680	3,044,978
	65,540,897	68,513,365
Deferred charges and other assets:		
Unamortized debt expense	99,448	108,079
Deposits and other	109,061	10,945
	208,509	119,024
	$83,639,581	$80,505,220

LIABILITIES AND STOCKHOLDERS' EQUITY

	1969	1968
Current liabilities:		
Notes payable to banks	$ 2,500,000	$11,000,000
Accounts payable	7,102,530	5,021,987
Accrued taxes	24,487	50,358
Accrued interest	129,931	134,930
Total current liabilities	9,756,948	16,207,275
Long-term debt due after one year:		
6-1/4% Sinking Fund Notes due 1986 (Note 1)	44,000,000	44,000,000
Purchase obligations		225,150
	44,000,000	44,225,150
Stockholders' equity:		
Common stock, $2,500 par value: Authorized and outstanding - 10,800 shares	27,000,000	27,000,000
Retained earnings (deficit)	2,882,633	(6,927,205)
	29,882,633	20,072,795
	$83,639,581	$80,505,220

See accompanying notes.

PHILLIPS PUERTO RICO CORE INC.

STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

Years ended December 31, 1969 and 1968

	1969	1968
Revenues:		
Net sales (to affiliates - $34,165,973 in 1969; $18,781,433 in 1968)	$75,347,772	$44,852,279
Other income	21,751	
	75,369,523	44,852,279
Costs and expenses:		
Cost of sales and operating expenses	53,963,003	37,977,686
Selling, general and administrative expenses (including commissions of $1,853,277 to affiliates in 1969)	3,904,094	2,094,942
Taxes, other than income taxes	147,081	90,691
Depreciation (straight-line)	4,255,952	3,036,823
Interest and debt expense	3,289,555	3,507,586
	65,559,685	46,707,728
Net income (loss) (Note 2)	9,809,838	(1,855,449)
Deficit, beginning of year	(6,927,205)	(5,071,756)
Retained earnings (deficit), end of year	$ 2,882,633	$(6,927,205)
Net income (loss) per share of common stock based on average number of shares outstanding during the year	$908	$(175)

See accompanying notes.

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PHILLIPS PUERTO RICO CORE INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 1970

Note 1:

Semi-annual prepayments of $1,826,000 are required commencing June 15, 1975 on the Company's 6-1/4% Sinking Fund Notes due 1986 (guaranteed by parent, Phillips Petroleum Company).

Note 2:

The Company has been granted exemption from certain Puerto Rico taxes including income taxes for a period of twelve years commencing December 31, 1969. (By executive order of the Governor of the Commonwealth of Puerto Rico, dated December 10, 1969, the area in which the Company's plant facilities are located was designated a fifteen-year exemption zone. The Company has applied for and anticipates receiving the additional three-year exemption.) Further, under Section 931 of the U.S. Internal Revenue Code, the Company's operations are exempt from U.S. Federal income tax. Operating losses of prior years, approximating $5,324,000, were utilized to apply against 1969 taxable income. To the extent that taxable income in 1969 was not offset by prior years' losses, the Company elected to provide additional "flexible" depreciation on certain selected assets as permitted by the Puerto Rico income tax law. This in effect eliminated Puerto Rico income tax which otherwise would have been due for 1969 at an effective rate of approximately 36%.

Provision for deferred income taxes applicable to the excess of depreciation claimed for tax purposes over depreciation provided on the books was not made in 1969 since an offsetting excess of book depreciation over tax basis depreciation will occur during the exemption period.

Note 3:

Under terms of an agreement, as amended, with the Puerto Rico Ports Authority, covering marine facilities near Guayama, Puerto Rico, the Company has guaranteed minimum annual wharfage and dockage fees of $690,518 through November 30, 1987.

Note 4:

Effective October 1, 1969 the Company established a non-contributory pension plan covering substantially all of its employees. The plan is being administered by the Company. A provision of $78,000 has been made for the year ended December 31, 1970 to cover estimated current service costs and interest and amortization of estimated past service costs on the basis of a thirty-year amortization period.

Note 5:

In January 1971 the Company invested $2,000,000 in 200 shares of 9% cumulative preferred stock, par value $10,000, of Fibers International Corporation, also a subsidiary of Phillips Petroleum Company. It is anticipated that additional investment will be made therein as these securities become available.

ARTHUR YOUNG & COMPANY

G.P.O. BOX 4526
SAN JUAN, PUERTO RICO 00936

The Board of Directors and Stockholders,
Phillips Puerto Rico Core Inc.:

We have examined the accompanying balance sheet of Phillips Puerto Rico Core Inc. at December 31, 1970 and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Phillips Puerto Rico Core Inc. at December 31, 1970 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

January 29, 1971

Phillips Puerto Rico Core Inc.

Annual Report

1970

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PHILLIPS PUERTO RICO CORE INC.

BALANCE SHEET

December 31, 1970 and 1969

ASSETS	1970	1969
Current assets:		
Cash	$ 3,296,023	$ 1,553,366
Certificates of deposit	8,720,522	100,000
Accounts receivable:		
Trade and other	5,467,609	3,677,865
Affiliates	1,448,731	3,295,089
	6,916,340	6,972,954
Inventories:		
Petroleum products, at cost (last-in, first-out), lower than market	7,991,726	7,115,500
Materials and supplies, at average cost	1,202,281	1,559,795
	9,194,007	8,675,295
Prepaid expenses	660,441	688,560
Total current assets	28,787,333	17,990,175
Property, plant and equipment, at cost:		
Manufacturing plant and equipment	71,658,313	71,230,979
Automotive equipment	98,472	101,357
Office furniture and equipment	156,638	150,115
Construction work in progress	3,741,676	1,321,126
	75,655,099	72,803,577
Less accumulated depreciation and amortization	11,589,076	7,262,680
	64,066,023	65,540,897
Deferred charges and other assets:		
Unamortized debt expense	90,816	99,448
Deposits and other	8,393	9,061
	99,209	108,509
	$92,952,565	$83,639,581

LIABILITIES AND STOCKHOLDERS' EQUITY	1970	1969
Current liabilites:		
Notes payable to banks	$	$ 2,500,000
Accounts payable	6,015,852	7,102,530
Accrued taxes	9,902	24,487
Accrued interest	114,583	129,931
Due to parent	88,210	
Total current liabilities	6,228,547	9,756,948
Long-term debt due after one year:		
6-1/4% Sinking Fund Notes due 1986 (Note 1)	44,000,000	44,000,000
Stockholders' equity:		
Common stock, $2,500 par value:		
Authorized and outstanding - 10,800 shares	27,000,000	27,000,000
Retained earnings	15,724,018	2,882,633
	42,724,018	29,882,633
	$92,952,565	$83,639,581

See accompanying notes.

PHILLIPS PUERTO RICO CORE INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31, 1970 and 1969

	1970	1969
Revenues:		
Net sales (to affiliates - $24,064,366 in 1970; $34,165,973 in 1969)	$77,180,488	$75,347,772
Interest and other income	343,994	21,751
	77,524,482	75,369,523
Costs and expenses:		
Cost of sales and operating expenses	54,136,904	53,963,003
Selling, general and administrative expenses (including commissions to affiliates of $1,557,470 in 1970 and $1,853,277 in 1969)	3,225,635	3,904,094
Taxes, other than income taxes	136,347	147,081
Depreciation and amortization (straight-line)	4,327,038	4,255,952
Interest and debt expense	2,857,173	3,289,555
	64,683,097	65,559,685
Net income (Note 2)	12,841,385	9,809,838
Retained earnings (deficit) at beginning of year	2,882,633	(6,927,205)
Retained earnings at end of year	$15,724,018	$ 2,882,633
Net income per share of common stock based on average number of shares outstanding during the year	$1,189	$908

See accompanying notes.

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PHILLIPS PUERTO RICO CORE INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - INVESTMENT

During 1971 the Company acquired for cash 2,200 shares of 9% cumulative preferred stock, $10,000 par value, of Fibers International Corporation, also a subsidiary of Phillips Petroleum Company. No dividends have been declared by Fibers International Corporation to date.

NOTE 2 - LONG-TERM DEBT

Semi-annual prepayments of $1,826,000 are required commencing June 15, 1975 on the Company's 6-1/4% Sinking Fund Notes due 1986 (guaranteed by parent, Phillips Petroleum Company).

NOTE 3 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company has a non-contributory pension plan covering substantially all of its employees. The plan is being administered by the Company. Provisions of $87,000 and $78,000 have been made for the years ended December 31, 1971 and 1970, respectively, to cover estimated current service costs and interest and amortization of estimated past service costs over twenty-five years.

Under terms of an agreement, as amended, with the Puerto Rico Ports Authority, covering marine facilities near Guayama, Puerto Rico, the Company has guaranteed minimum annual wharfage and dockage fees of $690,518 through November 30, 1987.

NOTE 4 - TAXES

The Company's regular manufacturing operations are exempt from certain Puerto Rico taxes, including income tax, for a period of fifteen years commencing December 31, 1969. Under Section 931 of the U.S. Internal Revenue Code, the Company's operations are also exempt from U. S. Federal income tax.

ARTHUR YOUNG & COMPANY

G P O BOX 4526
SAN JUAN, PUERTO RICO 00936

The Board of Directors and Stockholder,
Phillips Puerto Rico Core Inc.:

We have examined the accompanying balance sheet of Phillips Puerto Rico Core Inc. at December 31, 1971 and the related statements of income and earnings employed in the business and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Phillips Puerto Rico Core Inc. at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

February 8, 1972

Phillips Puerto Rico Core Inc.

Annual Report

1971

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PHILLIPS PUERTO RICO CORE INC.

BALANCE SHEETS AT DECEMBER 31

ASSETS	1971	1970
CURRENT ASSETS:		
Cash	$ 1,436,855	$ 3,296,023
Certificates of deposit	7,050,000	8,720,522
Notes and accounts receivable:		
Trade and other	3,310,977	5,467,609
Affiliates	1,517,589	1,448,731
Inventories:		
Petroleum products, at cost (last-in, first-out), lower than market	6,232,681	7,991,726
Materials and supplies, at average cost	1,039,894	1,202,281
Total Current Assets	20,587,996	28,126,892
INVESTMENT AND LONG-TERM RECEIVABLES, at cost (Note 1)	22,008,710	8,393
PROPERTY, PLANT, AND EQUIPMENT, at cost	75,922,193	75,655,099
Less reserve for depreciation and amortization	15,990,093	11,589,076
	59,932,100	64,066,023
PREPAID AND DEFERRED CHARGES	380,355	751,257
	$102,909,161	$92,952,565
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3,419,084	$ 5,893,511
Due to parent		88,210
Accrued taxes	3,376	9,902
Accrued interest	114,583	114,583
Salaries and wages payable	37,903	37,049
Total Current Liabilities	3,574,946	6,143,255
LONG-TERM DEBT:		
6-1/4% Sinking Fund Notes due 1986 (Note 2)	44,000,000	44,000,000
DEFERRED CREDITS	2,406	7,292
RESERVE FOR CONTINGENCIES (Note 3)	201,000	78,000
STOCKHOLDER'S EQUITY:		
Common stock, $2,50 par value:		
Shares authorized and outstanding 10,800	27,000,000	27,000,000
Earnings employed in the business	28,130,809	15,724,018
	55,130,809	42,724,018
	$102,909,161	$92,952,565

See accompanying notes.

PHILLIPS PUERTO RICO CORE INC.

STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

	Years ended December 31	
	1971	1970
REVENUES:		
Gross operating revenues (sales to affiliates - 1971 - $48,843,167; 1970 - $24,064,366)	$82,116,061	$77,222,488
Other revenues	471,591	300,367
	82,587,652	77,522,855
COSTS AND EXPENSES:		
Cost of sales and services	60,401,653	54,136,904
Selling, general, and administrative expense (including commissions to affiliates - 1971 - $1,127,449; 1970 - $1,557,470)	2,457,308	3,219,738
Depreciation, amortization and retirements (straight-line)	4,417,411	4,331,308
Taxes other than income taxes	135,739	136,347
Interest and expense on indebtedness	2,768,750	2,857,173
	70,180,861	64,681,470
NET INCOME	12,406,791	12,841,385
EARNINGS EMPLOYED IN THE BUSINESS AT BEGINNING OF YEAR	15,724,018	2,882,633
EARNINGS EMPLOYED IN THE BUSINESS AT END OF YEAR	$28,130,809	$15,724,018

See accompanying notes.

PHILLIPS PUERTO RICO CORE INC.

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

	Years ended December 31	
	1971	1970
SOURCE:		
Net income	$12,406,791	$12,841,385
Depreciation, amortization, and retirements	4,417,411	4,331,308
Other	131,631	86,632
Funds from operations	16,955,833	17,259,325
Property sales and retirements	8,182	2,577
	$16,964,015	$17,261,902
APPLICATION:		
Capital expenditures	$ 291,670	$ 2,859,011
Investment and long-term receivables (Note 1)	22,000,317	(668)
Other	(357,385)	(35,410)
Increase (decrease) in working capital	(4,970,587)	14,438,969
	$16,964,015	$17,261,902
WORKING CAPITAL CHANGES:		
Cash	$(1,859,168)	$ 1,742,657
Certificates of deposit	(1,670,522)	8,620,522
Notes and accounts receivable	(2,087,774)	(56,614)
Inventories	(1,921,432)	518,712
Total current assets	(7,538,896)	10,825,277
Notes payable		2,500,000
Accounts payable	2,474,427	1,192,798
Due to parent	88,210	(88,210)
Accrued taxes and other accruals	5,672	9,104
Total current liabilities	2,568,309	3,613,692
Increase (decrease) in working capital	$(4,970,587)	$14,438,969

See accompanying notes.

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PHILLIPS PUERTO RICO CORE INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

Basis of Financial Statements - The Company, a wholly owned subsidiary of Phillips Petroleum Company, is a member of a group of affiliated companies. A significant portion of its revenues, costs and expenses are represented by transactions with members of the affiliated group.

Inventories - Petroleum products are priced at cost, which is lower than market, calculated mainly by the last-in, first-out method on a monthly basis. Materials and supplies are priced at average cost.

Depreciation - Depreciation of property, plant, and equipment is determined by the group straight-line method.

Property Dispositions - When complete units of depreciable property are retired or are sold for continued use, reserves are reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are retired or disposed of, the difference between asset cost and salvage value is charged or credited to the reserve for depreciation.

Maintenance and Repairs - Minor renewals and replacements are charged against income. Major renewals and replacements are charged to property accounts.

NOTE 2 - INVESTMENT

During 1972 the Company acquired for cash 1,600 shares of 9% cumulative preferred stock, $10,000 par value, of Fibers International Corporation, also a subsidiary of Phillips Petroleum Company. No dividends have been declared by Fibers International Corporation to date.

NOTE 3 - LONG-TERM DEBT

Semi-annual prepayments of $1,826,000 are required commencing June 15, 1975 on the Company's 6-1/4% Sinking Fund Notes due 1986 (guaranteed by parent, Phillips Petroleum Company).

NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company has a non-contributory pension plan covering substantially all of its employees. The plan is being administered by the Company. Provisions of $90,187 and $87,000 have been made for the years ended December 31, 1972 and 1971, respectively, to cover estimated current service costs and interest and amortization of estimated past service costs over twenty-five years.

Under terms of an agreement, as amended, with the Puerto Rico Ports Authority, covering marine facilities near Guayama, Puerto Rico, the Company has guaranteed minimum annual wharfage and dockage fees of $690,518 through November 30, 1987.

NOTE 5 - TAXES

The Company's regular manufacturing operations are exempt from certain Puerto Rico taxes, including income tax, for a period of fifteen years commencing December 31, 1969. Under Section 931 of the U. S. Internal Revenue Code, the Company's operations are also exempt from U. S. Federal income tax.

The provision of $27,085 for Puerto Rico income tax applies only to income earned on operations not included in the Company's tax exemption grant.

Phillips Puerto Rico Core Inc.

Annual Report

1972

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholder,
Phillips Puerto Rico Core Inc.:

We have examined the accompanying balance sheet of Phillips Puerto Rico Core Inc. at December 31, 1972 and the related statements of income and earnings employed in the business and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly, on the basis described in Note 1, the financial position of Phillips Puerto Rico Core Inc. at December 31, 1972 and 1971 and the results of its operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Juan, Puerto Rico
February 13, 1973

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PHILLIPS PUERTO RICO CORE INC.

BALANCE SHEETS AT DECEMBER 31

ASSETS	1972	1971
CURRENT ASSETS:		
Cash	$ 1,343,812	$ 1,436,855
Time deposits	7,610,000	7,050,000
Notes and accounts receivable:		
Trade and other	4,226,553	3,310,977
Affiliates	1,807,383	1,517,589
Inventories (Note 1)		
Petroleum products	6,501,415	6,232,681
Materials and supplies	1,095,894	1,039,894
Total Current Assets	22,585,057	20,587,996
INVESTMENT AND LONG-TERM RECEIVABLES, at cost (Note 2)	38,016,966	22,008,710
PROPERTY, PLANT, AND EQUIPMENT, at cost	76,163,147	75,922,193
Less reserve for depreciation and amortization	20,581,044	15,990,093
	55,582,103	59,932,100
PREPAID AND DEFERRED CHARGES	734,425	380,355
	$116,918,551	$102,909,161
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,063,474	$ 3,419,084
Accrued taxes	4,477	3,376
Accrued interest	114,583	114,583
Salaries and wages payable	55,775	37,903
Total Current Liabilities	6,238,309	3,574,946
LONG-TERM DEBT:		
6-1/4% Sinking Fund Notes due 1986 (Note 3)	44,000,000	44,000,000
DEFERRED CREDITS	16,606	2,406
RESERVE FOR CONTINGENCIES (Note 4)	306,187	201,000
STOCKHOLDER'S EQUITY:		
Common stock, $2,500 par value:		
Shares authorized and outstanding 10,800	27,000,000	27,000,000
Earnings employed in the business	39,357,449	28,130,809
	66,357,449	55,130,809
	$116,918,551	$102,909,161

See accompanying notes.

PHILLIPS PUERTO RICO CORE INC.

STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

Years ended December 31

	1972	1971
REVENUES:		
Gross operating revenues (sales to affiliates - 1972 - $55,360,414; 1971 - $48,843,167)	$83,268,628	$82,116,061
Other revenues	484,224	471,591
	83,752,852	82,587,652
COSTS AND EXPENSES:		
Costs and operating expenses	62,601,638	60,401,653
Selling, general, and administrative expenses (including commissions to affiliates - 1972 - $654,239; 1971 - $1,127,449)	2,381,640	2,457,308
Depreciation, amortization and retirements (Note 1)	4,610,392	4,417,411
Taxes other than income taxes	146,826	135,739
Interest and expense on indebtedness	2,758,631	2,768,750
Provision for Puerto Rico income tax (Note 5)	27,085	-
	72,526,212	70,180,861
NET INCOME	11,226,640	12,406,791
EARNINGS EMPLOYED IN THE BUSINESS AT BEGINNING OF YEAR	28,130,809	15,724,018
EARNINGS EMPLOYED IN THE BUSINESS AT END OF YEAR	$39,357,449	$28,130,809

See accompanying notes.

PHILLIPS PUERTO RICO CORE INC.

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

Years ended December 31

	1972	1971
SOURCE:		
Net income	$11,226,640	$12,406,791
Depreciation, amortization, and retirements	4,610,392	4,417,411
Other	297,320	131,631
Funds from operations	16,134,352	16,955,833
Property sales and retirements	12,213	8,182
Decrease in working capital	666,302	4,970,587
	$16,812,867	$21,934,602
APPLICATION:		
Capital expenditures	$ 272,608	$ 291,670
Investment and long-term receivables (Note 2)	16,008,256	22,000,317
Other	532,003	(357,385)
	$16,812,867	$21,934,602
WORKING CAPITAL CHANGES:		
Cash	$ (93,043)	$(1,859,168)
Time deposits	560,000	(1,670,522)
Notes and accounts receivable	1,205,370	(2,087,774)
Inventories	324,734	(1,921,432)
Total current assets	1,997,061	(7,538,896)
Accounts payable	2,644,390	2,474,427
Due to parent	-	88,210
Accrued taxes and other accruals	18,973	5,672
Total current liabilities	2,663,363	2,568,309
Decrease in working capital	$ 666,302	$ 4,970,587

See accompanying notes.

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